



# **IS A SHORT SALE AN OPTION FOR ME?**

By: Bobbie Files

[BerkleyMass.com](http://BerkleyMass.com)



Index

Table of Contents

What is a Short Sale?..... 3

When is a Short Sale an option for you? ..... 5

Selecting a real estate agent with background and experience ..... 8

Exploring alternative options with the real estate agent ..... 10

Communicating with the lender(s) ..... 12

Your obligations and being fair ..... 15

The offer to purchase ..... 17

My position ..... 19

## What is a Short Sale?



A short sale is when a homeowner facing foreclosure sells his or her property for less than what is owed to the mortgage lender. The sale has to be approved by the lender.

Short sales have become very popular. There are several reasons why they are so prevalent right now. In some instances, homeowners with adjustable-rate loans can't make the payments when their interest rates rise; others fall behind because of job loss; others because of a divorce or sickness.

A lot of homeowners have seen their homes values drop and when they want to refinance...

The surprise hits them square in the face.

Their home can not be refinanced because the appraisal for the refi is below what you need to refinance the entire loan.

What are the advantages and disadvantages of a short sale?

A short sale will be less damaging to your credit score than a foreclosure. Just try to have a normal life with a foreclosure on your record...it's almost impossible to rent, finance a car, apply for future

## The Short Sale Option

---

job applications.... Simply put, you will be paying through the nose next time you want to finance a car. Sure they will give you a loan to buy one but, you will be paying astronomical payments

If you are a buyer looking to cash-in doing short sales, it's not necessarily a time to "steal" a property. Lenders aren't stupid, they want to get market value for their properties, not give them away.

There is a balance just like other types of investing in Real Estate.

A short sale could be your best tool to acquire great bargains out there but you must have patience, perseverance and a good realtor on your side.

## When is a Short Sale an option for you?



### **The Home's Market Value Has Dropped.**

The bank will do a REO appraisal commonly known as BPO's. The property has to appraise LOWER than what you owe to the bank.

### **The Mortgage is in or Near Default Status.**

Sometime lenders will consider a short sale if the payments are current: you will just have to prove to them that a short sale is the only option for you besides a foreclosure. Typically a homeowner has to be 30 days or more late on their mortgage payments for a lender to start paying attention to you. Occasionally there are times when a short sale is possible at the last minute, even when a foreclosure date has been set by the court.



## The Short Sale Option

---

### **The Seller Has Fallen on Hard Times.**

The Seller must submit a letter of hardship that explains why the seller can no longer be able to pay for the loan. A few examples that do not qualify as a hardship: bad purchase decisions like the lease of a Mercedes or purchasing a plasma TV. The bank isn't going to be happy losing money on your home when you clearly put yourself in a bad situation by indulging in high-ticket items.

Another example that will not qualify for a short sale is being unhappy because your home's equity simply disappeared and you feel that owning your home isn't on your future plans any longer.

You took a chance when you purchased your home. For the most part a real estate purchase still is a sound decision in the long run but if your finances did not change and the only thing that different is the value of your home. Just swallow it and go on.

### **The Seller Has NO Assets**



The lender will need to see a financial statement. They will also require you to present them with a copy of your tax returns plus copies of your checking and savings account.

If you have \$50,000 in a 401K and/or savings, stocks, bonds or retirements accounts, chances are that the lender will question as to why are you applying for a short sale if you have money to pay the difference.

## The Short Sale Option

---

To make it easier, I always ask my clients before taking a short sale: “if you have more than \$10,000 laying around, perhaps a short sale may not be a good option.”

I repeat: the bank will not lose any money to sell your home if you have money in other assets. Being fair and truthful to the bank will always get you better results. Many of our APPROVED SHORT SALES have this language in their “Instructions to Close” letter:

“The seller SHALL NOT profit from the sale of the property and/or absolutely no money to the seller at closing...”

Not even a penny!

## Selecting a real estate agent with a background and experience



This is probably the most important step by the seller: Choosing the RIGHT agent to represent you and do the job right! The process of a short sale is complicated and time consuming. An agent that does not have the experience to do them will be better off referring that client to one that does...

A sign that your realtor isn't the one to do a short sale is when they will ask you for the listing to be signed without any questions or verifications that you may qualify for a short sale.

Please understand this is a new industry for all Realtors. We have been forced to do short sales by the current sub-prime mess. Very few Realtor are even qualified to do one. A knowledgeable and experienced real estate agent will ask the seller to furnish a number of document—closing documents, income tax returns, bank statements, paycheck stubs, in addition to other documents. All these supporting documents and your current situation will be scrutinized by your agent.



## The Short Sale Option

---

A foreclosure is looming on your record.... You should make sure you have the right agent to handle your short sale to avoid it.

REMEMBER... You are trying to SAVE YOUR HIDE!

Demand good service.... Your family's future is at stake!

## Exploring alternative options with the real estate agent.

Another part of the process is for your real estate agent is to discuss with you the various options available other than what a short sale has to offer.

Community Action Agencies throughout the country were put in place to protect its citizens from "shark investors" or even real estate agents with good intentions that don't have a clue.

Loan Modification Requests should be exhausted by calling your bank's 911 and telling them

**"YOU ARE IN TROUBLE!"**

Other things to consider are deed in lieu of foreclosure, bankruptcy, borrowing money from private individuals, renting the property, etc.

One thing about bankruptcy:

You may have to file for bankruptcy. It is very important you understand how bankruptcy works. There are several different "chapters" of bankruptcy. Some are work-out, others are wipe-out, but here is my point... I'm not an attorney as much as my father would've loved if I became one. A real estate agent may in fact under no circumstances advise you about your options in bankruptcy...

If he/she does...

**...run the other way!!!**

## The Short Sale Option

---

Another important factor: if the lender agrees to the short sale, the lender may possess the right to issue you a 1099 for the shorted difference... In other words: you still have to pay the bank!

Due to a provision in the IRS code about debt forgiveness, many situations are exempt from debt forgiveness. But then again, you will need to speak to a tax accountant to determine the amount of short sale tax consequences.

The Good NEWS. . .

### **Mortgage Workouts, Now Tax-Free for Many Homeowners; Claim Relief on Newly-Revised IRS Form**

WASHINGTON — Homeowners whose mortgage debt was partly or entirely forgiven during 2007 may be able to claim special tax relief by filling out newly-revised Form 982 and attaching it to their 2007 federal income tax return, according to the Internal Revenue Service.

Normally, debt forgiveness results in taxable income. But under the Mortgage Forgiveness Debt Relief Act of 2007, enacted Dec. 20, taxpayers may exclude debt forgiven on their principal residence if the balance of their loan was less than \$2 million. The limit is \$1 million for a married person filing a separate return. Details are on Form 982 and its instructions, available now on IRS.gov.

"The new law contains important provisions for struggling homeowners," said Acting IRS Commissioner Linda Stiff. "We urge people with mortgage problems to take full advantage of the valuable tax relief available"

Yes, the government wants  
to help you after all.... It's about time!

## Communicating with the lender(s)



An authorization for the person that will do the negotiating with the bank should be signed by all parties in the mortgage. The lender will request a hardship letter. A hardship letter tells the lender why you are not making their mortgage payments. They will also request bank statements to provide them proof of how much cash you have, pay stubs for at least the last 2 months if you are self-employed, and you may have to provide proof of income by your deposits to the bank such as a copy of the check payable to you, etc.

Your agent should be able to put all this together; be prepared to be open.

Understand this...

It is like you are putting an application to purchase a home. ..

**IN REVERSE!**

## The Short Sale Option

---

Your bank wants to see that you simply can not afford the home anymore. Your bank has to be assured that IF the short sale is denied... you will go to foreclosure period.

A HUD-1 together with the listing agreement and the offer for the property is next. Your agent should put this together in a neat package.

Do not waste any time!

It usually takes 7 to 14 days for a bank to just put the package submitted in their system... Only then a negotiator will be assigned to your case. In some cases negotiators have up to 4 more weeks to order the BPO. This stands for Brokers Price Opinion. Basically a real estate agent hired by the bank will come out and give their opinion on what the house is worth. Some banks are now doing a complete REO appraisal by a professional certified appraiser. The key to short sales is the BPO. There is nothing else in a short sale MORE IMPORTANT than the BPO.

You want to prove during the BPO that your property has considerably lost its value. If your house needs a new roof or has water problems in the basement... now is the time to bring it for consideration.

Your agent at this time will bring any sales comparables that will support the sales price.

Important point:

The bank will not deny a SHORT SALE because of how much money they will be losing... They will always consider a short sale based on the ACTUAL value of the property!

A point that your agent has to bring to the package is:

**Show the bank as to why it would be to their advantage to accept a short sale instead of a foreclosure.**

## The Short Sale Option

---

A foreclosure to the bank is disadvantageous for many reasons. Time is money and reputation also plays a role. Your bank is in business to make money, they will not accept a short sale just because you are sick or had a car accident. They want to see it in black and white:

Does it make any sense to accept this short sale?

A good agent will convince them of that, so you can ultimately avoid

A FORECLOSURE ON YOUR RECORD.

## Your obligations and being fair



As the person benefiting from a short sale, you have certain obligations that I would like to point out.

Number one: It is for you, the seller, to maintain your property in such a fashion that will insure the highest and best price for the property during the listing period. My obligation as an agent is TO YOU. I want to finish my job and have all the odds in our favor to complete the task. .

If you aren't willing to show your property to possible buyers because you don't want to be disturbed, then you aren't being FAIR.

I encounter from time to time clients that will slowly realize they are ACTUALLY losing their home and everybody in on the process is the enemy.

Be honest to yourself and to your agent.

If you aren't sure about going through a short sale...

**SIMPLY DON'T!**

Just be fair to your agent and be honest.

Another part of being fair: Removing appliances, washers and dryers and fixtures that normally stays with a house. Take your curtains but, if you purchased the home with a dishwasher...

## The Short Sale Option

---

...then the dishwasher STAYS.



I always say to my clients a short sale is a WIN-WIN-WIN for all parties:

A WIN for you as a seller: You will be given thousands of dollars to sell your house and walk out free and clear of a foreclosure.

A WIN for the buyer: Excellent opportunity to purchase a home at a great price.

A WIN for the bank: Excellent opportunity to recuperate part of their investment without hiring attorneys and going to foreclosure.





## The offer to purchase

As soon as the offer arrives, your agent should determine: what are the chances that the offer will be accepted by the bank?

With short sales, buyers are looking for bargains and they may make offers that are very low compared with the surrounding comparables and the overall market value of your house. A lender sometimes will decide financially that it is a better situation to foreclose on the property than to approve the offer.

Your agent's experience should play a role when low ball offers come in. A knowledgeable and experienced real estate agent does know when an offer is being "low balled."

At that point your agent should advise you to accept it, reject it, or counter it.

**If your property is two weeks from going to foreclosure, then by all means any offer is a good offer.**

But if you have time, it does not hurt to counter-offer and qualify the buyer making sure he /she is going to come to the closing... sometimes months later.

If I send a low ball offer to a bank, I run the risk to alienate the lender into thinking that we are taking advantage of them. Ultimately that could hurt your chances of having a short sale accepted.

Your agent should protect you to give you the highest probabilities to get the short sale accepted.

I had a 'well known' agent in my community call me and demand that I send a low ball offer to the bank for one of our listings.

"You must present all offers; that is your duty and I expect this offer to be presented to the bank at once!"

## The Short Sale Option

---

I will present the offer to my client. That is my duty, BUT.... I can advise my clients that a low ball offer will not be beneficial to negotiate a short sale.

Needless to say... This well-known agent saw that she was wasting her time and I never heard from her again.

There are agents working with investors putting dozens of offers every single day.... Your agent should shield you from them unless it's a last case scenario.

## MY Position

As a Realtor in the Bristol / Plymouth County region, I see many instances where the homeowner gets into trouble by accepting the help of someone that wants to only help themselves.

If you are facing foreclosure, more than likely you will be contacted by someone wanting to assist or help you out of your situation. I know some of these companies or individuals could mean well, but most often are swindlers preying on desperate homeowners for their own benefit.

I have to tell you that my team, The Loss Mitigation Team at Keller Williams Realty, exists because of our desire to assist homeowners like you to avoid foreclosure. We didn't choose to follow this road in our business.

Instead, we're

**MORALLY OBLIGATED**

to help our past clients when I saw them losing their own homes.

As a responsible REALTOR, how could I ignore the people that helped me get to my current position in the first place?

If you are reading this, you have some troubled times ahead...

Bad things happen to good people...

Please know that you are not alone...

It is estimated that more than a million homeowners will be foreclosed before this sub-prime mess ends.

The hardest step to make is to REALIZE that you simply need help.

The quality of the help you seek will make a difference in the end.

## The Short Sale Option

---

I'll outline a few things you can look for in determining if someone is "really" trying to help you:

### Avoid foreclosure scams...

- DON'T SIGN any papers that you don't fully understand, or your situation could be worse.
- DON'T SIGN any papers that you feel are being pressured into signing.
- DON'T MAKE mortgage payments to anyone other than your lender.
- DON'T SIGN over the deed without some closure or agreement for your protection. Talk to your attorney or title company if you need help.
- DON'T EVER pay anyone who claims to stop foreclosure. You can help yourself by calling your lender and asking for assistance. It's all free!

## The Short Sale Option

---

I hope the information in this e-book will be helpful to you if you are facing foreclosure.

The reason I wrote this is that some days I have to repeat this whole book verbatim two or three times to someone on the telephone... and the most important person for me is the client that I'm currently assisting at any given time.

I don't want to miss any points because I know this is your WORLD and you are relying on me to give you the very best advice I can.

I value you as a client and I hope that you will consider me if you decide to take the next step.

I sincerely appreciate the opportunity to be your trusted real estate investment advisor and resource. Please feel free to contact me for all real estate and mortgage needs.

If you know of anyone else who could benefit from the services I provide, I would sincerely appreciate the opportunity to be of assistance to them as well.

Regards,



*Bobbie Files*  
**508-521-9480**

This book was written by Bobbie Files, a Realtor for the Bristol / Plymouth Counties region.

Bobbie has created this e-book for you to use as a guide in establishing your options if a SHORT SALE could help you in these difficult times.

This e-book is free for you to download and read. Feel free to share and distribute this e-book with anyone wanting to learn more about SHORT SALES.

To contact the author, Bobbie Files:

email to: [bobbiefiles@kw.com](mailto:bobbiefiles@kw.com)

or by phone: 508-521-9480

[www.BerkleyMass.com](http://www.BerkleyMass.com)

"I will focus all my energy and resources with uncompromising honesty & integrity."

Bobbie Files

2008