

# How To Sell Your Home in a Short Sale

*A viable solution for property with no equity*



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**Please Take Action Today!!!!!!**

## *Introduction*

In today's modern world, it's easy for homeowners to get "upside-down" or into an "equity-deficient" position where they owe more on their mortgage than their

home is worth. With rising interest rates, high loan-to-value ratios, higher energy costs, or higher unemployment ratios in certain geographic areas of the country, homeowners can easily find themselves in a tight situation where making a mortgage payment can get harder and harder each month. This situation can end up being a downward financial spiral, yet there are qualified professionals to offer insight and sound resolution practices.

After two to three months of missed mortgage payments, the mortgage lender will record a written notice in the county where the property is located, which alerts the homeowner to the beginning stages of the foreclosure process. This recorded notice, whether a “notice of default”, “notice of trustee’s sale”, “intent to sell” or similar, reveals to the world that the homeowner is having trouble making the required payments toward contractual agreement of the mortgage note(s). At this stage, the homeowner is now officially in “pre-foreclosure”.

Unfortunately, one-half of these homeowners ever even contact their lender in an effort to resolve their situation. This “do-nothing” mentality is a costly mistake that damages both consumer credit scores and borrower personal integrity. A “foreclosure” status on a credit report is far worse than a bankruptcy. Homeowners can simply avoid “foreclosure” by listing the equity-deficient property for sale with a qualified professional.

YES! Homes with no equity can be sold on the market! The key is to find a real estate broker or agent who is trained specifically on how to negotiate short sales with the mortgage lenders.

Pre-foreclosure situations can be cleaned up quickly if you take action.

Foreclosure can be avoided, but you must be willing to take proactive steps to correct and resolve the situation.

*This guide on “How to Sell Your Home in a Short Sale” covers:*

- What is a Short Sale transaction and how is it beneficial?
- How a Short Sale affects your credit score vs. a foreclosure
- Possible Tax Ramifications
- How to find a Short Sale Real Estate Broker / Agent
- What information you need to provide to your real estate broker/agent
- Who pays the Broker/Agent Commission
- Elements of a Hardship Letter
- Why it's important to act now – don't delay

### What is a Short Sale transaction and how is it beneficial?

A real estate short sale transaction allows you to sell your home on the market – even if you don't have equity. The definition of equity is: A net financial interest in property ownership. You'll need a professional real estate broker/agent who is

specifically trained to perform a short sale, because your broker/agent will be negotiating, for your benefit, a discount of the total balance due of your mortgage note with your lender.

This is a great solution for many homeowners because it allows them to get out from under the debt, walk away with head held high, and save credit scores from incredible damage of a “foreclosure” rating.

A short sale occurs in the pre-foreclosure process. Once a homeowner has received a Notice of Default (NOD), he/she has a specified amount of time to cure the default or the lender will start proceedings to foreclose on the mortgage.

**A FORECLOSURE is the loss of a right to redeem a mortgage.**

**A MORTGAGE is a right to conditional conveyance of a property.**

A real estate agent, trained in short sale transactions, can list your home on the commercial market, price it accordingly and negotiate directly with the lender to accept a purchase offer for less than the principle, interest and impound account balance(s) due.

It's vital that you cooperate fully with your short sale real estate broker/agent, because he/she is working in your best interest to get the lender to release the mortgage at a discount. Later in this guide, we'll review the documents your broker/agent will request from you.

#### How a Short Sale affects your credit score vs. a foreclosure

Your credit is most likely a bit damaged at this point. You are three months or more overdue on your mortgage payment. So, there's good news and bad news on

this one. A short sale will affect your credit score, but the good news is that it won't be as harmful or long-lasting as a foreclosure.

A short sale is notated on your credit report as a Short Payoff, Settled, Paid, Offer and Compromise. This indicates to lenders that you took action and attempted to rectify the loan obligation. You were responsible, listed your home for sale and took a proactive interest. You will be rewarded for this over a foreclosure.

A "foreclosure" mark on your credit report is a bad sign or indicator to lenders. It puts you in a higher risk category because a "foreclosure" describes you as someone who didn't take any action or responsibility to repair or cure the Notice of Default. Chances are, future creditors will think you have a high risk of "walking out" on your loans again.

### Tax Ramifications

In some short sale transactions, the lender may release your mortgage debt to a short sale. You could still remain liable for tax consequences on the amount forgiven via:

A 1099-MISC form for miscellaneous income on the deficient amount or by filing of a personal judgment. Meaning, if you owed \$120,000 on your mortgage and obtained a release from your lender for the balance due of \$100,000, you could be liable for what is called "debt cancellation" of the \$20,000 deficiency, which is reported on a 1099-C. This is treated as "ordinary income" and would be taxed the same as wages, interest income, pension, etc. Make sure you consult with a qualified tax professional to help determine your individual tax liability circumstances.

This is another reason for you to use a qualified, professional short sale specialist broker/agent in your market. This broker/agent will be negotiating your best interest with the lender on your final tax-associated details and others. Your broker/agent will be able to request the lender NOT give you a 1099, but nothing is guaranteed. It is up to each individual lender whether to accept or deny requests to avoid a tax payer liability.

### How to find a Short Sale Real Estate Broker / Agent

If you are reading this guide on Short Sale transactions, chances are you received it from a broker/agent who already specializes in short sale transactions. Contact the broker/agent listed on this guide and request a listing appointment to go over the details. This broker/agent will be able to help you sell your equity-deficient home.

If you don't already have a broker/agent in mind, give me a call at 404-453-1269. Along with the assistance of my team, we will quickly begin working on your behalf to assist you in successfully transacting your short sale!

### What information you need to provide to your real estate broker/agent

When you meet with your real estate broker/agent, you will be given a list of documents to prepare for the agent. These documents will allow the broker/agent to communicate with your lender on your behalf and submit the necessary documents for negotiation of a short sale.

You will have to work quickly to get these documents, usually within 48 hours after your listing meeting with the broker/agent.

The list of documents you need to provide include:

- Copies of your most recent mortgage statements
- Lender's letter of Notice of Default (if available)
- Copies of your most recent tax return
- Copies of your two most recent pay check stubs
- Copies of your most recent bank account statement(s)
- A hardship letter – written in your own words on what has caused your financial distress

You may also be requested to submit a Borrower Financial Statement, but do this only upon request. It may not be necessary by all lenders.

#### Who pays the Broker/Agent Commission

Your house is in foreclosure and you can't sell your home for a profit, so how do you suppose you will be able to pay a commission to a broker/agent?

The beauty of a short sale transaction is that closing-related fees, liens, encumbrances and transaction commission are paid from the proceeds of the sales transaction. You generally have no money out of pocket. You can discuss other possible creative financial options available with your chosen broker/agent.

That's great news! You can sell your equity-deficient home and not have to pay the commission out of your proceeds!

Typically, short sale broker/agents will list the sale commission at 6 – 8%, a bit higher than traditional transactions because the short sale process is more time-consuming and difficult to master. This is a process attractive to many because the commission amount is negotiated along with the rest of the short sale details.

This is why short sales create *winning situations* for all parties involved:

- the bank wins by avoiding the costly expense of a foreclosure proceeding;
- you, the seller, win by selling your equity-deficient home and avoiding a foreclosure
- the agent/broker wins by getting a commission from the proceeds
- the buyer wins by buying a property with instant equity.

### Elements of a Hardship Letter

The hardship letter you submit to your real estate agent will go directly in the short sale file that is submitted to the lender for acceptance. It is **THE** most vital tool you have to explain your situation, and your inability to pay your mortgage.

When writing the hardship letter, be sure to mention the status on:

Employment: were you laid-off, fired or injured on the job?

Health: did you or a close family member suffer serious health problems?

Marriage: did you recently divorce and face financial problems?

There are specific reasons in your life that have caused you to fall behind on your mortgage payments. Be sincere and honest as you list these causes, but be *sure* to list everything. This hardship letter is your opportunity to communicate the exact reasons why you've had difficulty making your mortgage payments. The lender will read this when making the decision to accept a short sale offer on your home and release you from the deficiency balance.

Why it's important to act now – don't delay



If you have a notice of default (NOD), time is ticking. Each state is different, but in general you have only a few months to negotiate a short sale transaction.

The first thing to do is make an appointment with a Short Sale Real Estate Professional. To do this, you may give me a call at 404-453-1269.

The next thing to do is heed the advice of the Short Sale Professional and gather together the necessary documents. Your broker/agent will inform you of the specific foreclosure process in your state and make sure the sale completes itself within the designated time frame.

If you delay, you waste vital time the property could be listed for sale and diminish the short sale review timeline your lender needs to approve your short sale offer.

Find a licensed real estate professional specializing in short sale transactions and let them bear the brunt of negotiating a short sale transaction in your favor!

A short sale will allow you to leave your property with dignity and protect your credit score from major, long-term damage.