Short Sale Facts

What is a Short Sale?

In the world of Real Estate, a short sale refers to the sale of real property for an amount less than the amount owed on the property. In the short sale scenario, the bank agrees to accept less than the full balance due on the debt, and usually 'forgives' all or a large portion of the difference.

How will the Short Sale affect my credit?

Short Sales are not a new concept. Banks have the option of submitting the short sale to the credit bureau as "Paid in Full" or "Settled for less than full balance". As far as your credit score is concerned, there is no evidence to support that a short sale will lower your credit score. Some have the idea that this is like a bankruptcy or a foreclosure. That's far from the truth! In a short sale, the lender is simply allowing you to pay less than you owe!
If you are currently behind on your mortgage or facing foreclosure, the short sale will actually help your credit! How? Because once you are approved for the short sale, all collection activity will STOP and you will avoid foreclosure!

Who benefits from the Short Sale?

Short sales are a win-win situation. Lenders & Owners both benefit from the successful short sale. The Lenders get the majority of their money back, the owner get the relief they need and are able to sell their property and avoid foreclosure.
Why would banks forgive the difference?
To mitigate their losses, banks often accept a settlement of less than what is owed on the property. When faced with the option of getting the property 'back' through foreclosure, a short sale often makes a much wiser business decision for the bank.

This sound too good to be true!?

Not really. Things that are 'too good to be true' usually don't make good economic sense. The short sale makes good common and financial sense for the banks who grant them. The fact of the matter is, Mortgage companies and banks are NOT in the real estate business. They are in the LENDING business. The last thing they want is that property back.

CLAUDIA GOMEZ TEAM
Your Realtor
Foreclosure & Short Sale Specialist

Can FHA, Conventional or VA loans receive a short sale?

Yes!

What is Negative Equity?

Also known as being "upside down" negative equity is the difference between the value of an asset and the outstanding portion of the loan taken out to pay for the asset, when the latter exceeds the former. For example, if your car is worth $10,000 and you owe $15,000 on it, you would have a negative equity of $5,000. Negative equity can result from a decline in the value of an asset after it is purchased.
Some areas decline in value. In other areas, prices may remain flat so that the properties in that area do not appreciate. If a seller wants to sell within 2-3 years of purchasing their property, they may be in a situation where they have negative equity.

Why does my property have negative equity?

Here are a few common reasons:

- ✓ Person bought at the height of the market and the market has now declined or paid more than the property was worth.
- ✓ The area has become less desirable for any number of reasons, so property values have declined.
- ✓ Person purchased the home with little or no money down and wants to sell within a few years of purchase… and the property value has not increased during that time. Therefore, costs associated with selling the property may create a balance due at closing,
- ✓ Person refinanced the home (with a high appraisal value) and now has little or no equity.
- ✓ Person bought in a brand new subdivision or recently developed area that has not been fully developed or has not appreciated (or has depreciated) in value.
- ✓ The market is soft because there is too much builder (new home) inventory or too many existing homes on the market (buyer’s market)

What if I owe what my home is worth?

Even if you owe exactly what your home is worth, you may still need to do a short sale in order to pay for the costs of the sale (Realtor fees, Title & Transfer expenses and other seller closing costs).

KELLER WILLIAMS REALTY

REALTOR®

Why not just let my lenders foreclose?

NO! The foreclosure process is a *legal* process. It involves attorneys and it costs the bank MONEY and costs you your credit. Once the Bank gets the property back via foreclosure they must often sell it for MUCH LESS than market value and pay Realtor commissions, ongoing carrying costs, taxes, and all customary closing costs. Doesn't it make more sense for them to take at or a little below fair market value before foreclosing?
And, even when they do sell it through foreclosure... this does NOT remove your obligation to repay the remaining balance! It is not wiped away!!!

What if I'm not behind on my payments?

Short sales work – even if you've never missed a payment! Yes, I know… short sales have gotten a stigma of being only available for folks who are in foreclosure. But many lenders will grant a short sale to someone who have never missed a mortgage payment! They just happen to be in a negative equity position and need the short sale in order to sell their home.

How long does it take?

Short sale approval can take 30-90 days from contract.

What if my home is already in foreclosure?

Your foreclosure sale will not be suspended during the short sale process. That's why it's imperative that you contact us right away!!! We will communicate with the bank and so should you.

Will my lender send me a 1099 on the debt forgiven?

The Mortgage Debt Relief Act of 2007 generally allows taxpayers to exclude income from the discharge of debt on their principal residence. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualifies for the relief. This provision applies to debt forgiven in calendar years 2007 through 2012 up to $2 Million of forgiven debt is eligible. More information, including detailed examples can be found in IRS Publication 4681.

How much will the short sale cost me?

We strive to complete the entire short sale process without having the seller bring any money to closing. In late 2007, some lenders changed their policies and there are certain expenses that the lender might not pay, such as unpaid Home Owners Association dues, certain escrow fees, and some minor closing costs. In most cases, these items total no more than $300 - $800 depending on if the HOA / Condo fees have been paid. We will not know exactly how much they will be, if any, until we are closer to closing. It is a good idea to set aside $1000 for these incidental expenses.

Although this may sound high, it is usually less than one month's mortgage payment. **The goal of our Team will be to get the lender to forgive your unpaid mortgage payments, pay all of the REALTOR fees associated with the sale and customary seller closing costs**. The savings to you is typically in excess of $25,000, so the amount you might have to bring is a small price to pay for the large debt forgiveness.