

What are the Consequences of a Short Sale?

1. Potential IRS Tax Consequences:

The lender has the right to issue a 1099 for the shorted difference, although many are exempt from this due to either the Mortgage Forgiveness Debt Relief Act of 2007 (H.R.3648 or the IRS Insolvency Exception 108 (a)(1)(B). We recommend consulting with a real estate lawyer and tax accountant to determine if you have any tax consequences.

2. Deficiency Judgment (does not apply with some states):

The lender may have the right to pursue a summary Judgment for the deficiency.

Example: The bank was owed \$300,000 and sold short for \$210,000. The deficiency is \$90,000. The lender may have the right to sue the seller for the deficiency.

3. Blemished Credit Rating:

A short sale is indicated on a credit report as a pre-foreclosure in redemption status. Depending on the lender it may have the same impact as a foreclosure. The typical short sale will affect credit up to 2 years, while a foreclosure is currently 5-7 years.

Most creditors may not make a distinction when reporting unless you *seek specific relief*. This is why a good attorney or loss mitigation company specializing in short sales is advised.

Q. Why Would A Lender Agree To A Short Sale?

Lenders typically lose less money when compared to a foreclosure and the additional costs involved:

- Legal fees
- Twice the title transfer fees
- Maintenance of the property prior to sale
- Utilities, HOA fees, vandalism
- Commission & marketing costs

Q. Why Would A Seller Agree To A Short Sale?

Potential Seller Benefits

1. It typically has less of an impact on your credit rating when compared to a foreclosure.
2. Your lender may agree to stop reporting missed payments to the credit agencies.
3. After a Short Sale you're able to buy a home sooner than you would with a foreclosure.

Q. How Is A Short Sale Different From A Normal Sale?

- Marketing:
There is no difference. We still utilize our extensive marketing program.
- Home Pricing:
There's a big difference. Value is based on current REO'S and short sale properties.
- Buyers:
There's a big difference. Short Sale buyers are price sensitive and bargain driven.

Q. What Is The Short Sale Selling Process?

1. The seller signs listing agreement to sell the property subject to the lender(s) approval.
2. Agent secures an offer on the property.
3. Seller accepts the buyer's offer subject to lender(s) approval.
4. Lender reviews the offer to approve or deny a short sale.