

SHORT SALE

K4



WORK WITH AN EXPERT

- Over 100 Group REALTORS® have received the Certified Distressed Property Expert designation.
- They have completed 16 hours of extensive training from the premier short sale experts in the nation.
- They have been shown how to process a short sale completely, correctly, and ethically.
- They frequently receive industry and policy updates to remain informed and relevant.



SHORT SALE BASICS

In the past it was rare that a bank or lender would accept a short sale. However, due to market changes, lenders have become much more negotiable when it comes to these transactions. Recent changes in policy within many organizations have made the chances of getting a short sale approved even higher.

A homeowner is 'short' when they owe an amount on their property that when combined with closing costs is higher than current market value. A short sale occurs when a negotiation is entered into with the homeowner's mortgage company or companies to accept less than the full balance of the loan at closing. A buyer closes on the property and the property is 'sold short.'

In order for a short sale to be approved, the seller must have a valid financial hardship. Examples of hardships include loss of job, severe illness, divorce, mandatory job relocation, and mortgage payment increase.



HAFSA

The Home Affordable Foreclosure Alternative (HAFA) program is overseen by the US Treasury Department. It is designed to aid eligible homeowners by pre-approving short sales before listing and releasing them from future liability for future mortgage debt.

HAFA uses standard processes, documents, and time frames. It also provides financial incentives to lenders and homeowners for participating in the program; lenders receive a servicing bonus and homeowners can receive relocation assistance.

The following criteria must be met:

- The owner has a financial hardship and default is reasonably foreseeable.
- The property is the borrower's principal residence.
- The loan is a first-lien mortgage originated on or before 1/1/2009.
- The unpaid principal balance is equal to or less than \$729,750.
- The borrower's total monthly mortgage payment exceeds 31% of the borrower's gross income.
- The mortgage is not owned or guaranteed by Fannie Mae or Freddie Mac.

Contact your Group REALTOR® to learn how to initiate the HAFA process, to obtain the required forms, and to view a list of lenders participating in the HAFA program.

CUSTOMARY SHORT SALE PROCESS

1 PREPARATION

- Seller and Group REALTOR® sign listing agreement.
- Seller completes Hardship Package.
- Authorization letter sent to lender allowing The Group to communicate and follow up with lender.

2 MARKETING

- Property priced competitively to allow for a timely sale.
- Group REALTOR® advertises and promotes property.

3 OFFER

- Group REALTOR® presents offer to Seller.
- Seller negotiates with Buyer.
- Buyer provides lender pre-approval.
- Seller accepts offer from Buyer.
- Closing scheduled at least 60 days from acceptance.

4 SHORT SALE PACKAGE

- The Group confirms that the Hardship Package is complete.
- The Group sends Purchase Contract, Buyer pre-approval, and Hardship Package to all lenders.

5 LENDER FOLLOW UP

- The Group confirms receipt of package within 24 hours.
- The Group frequently follows up with lender to ensure no additional information is needed and to expedite approval process.
- The Group provides status updates to Seller, and Buyer's REALTOR®.

6 CLOSING

- Lender may accept short sale or ask Seller to make a counter-offer to Buyer.
- Buyer closes on property.
- Seller should obtain Settlement Letter from lender outlining any outstanding obligations from Seller to lender.

FHA/HUD PREFORECLOSURE SALE PROGRAM

The HUD Preforeclosure Sale Program allows a homeowner in default to sell their home and use the sales proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed.

In order to qualify, the property must be owner-occupied. The homeowner must provide documentation showing a reduction in income or an increase in living expenses. Also, the homeowner must be 31 days or more delinquent at the time of the closing.

During the marketing of the home, guidelines are in place that specify minimum offer amounts that the homeowner can accept from a buyer.

Contact your Group REALTOR® to learn how to initiate the HUD Preforeclosure Sale Program, and to obtain the required forms.

FORECLOSURE vs SHORT SALE

| LOAN | FORECLOSURE | SHORT SALE |
|--|--|---|
| FUTURE LOANS - PRIMARY RESIDENCES | | |
| Fannie Mae ¹ | A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years . | A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed mortgage after only 2 years . |
| FHA Loan - Late | A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years . | 3 years after the date the FHA insurance claim is paid to the lender - not the date of the short sale closing. |
| FHA Loan - Current | A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years . | No wait (for Freddie and Fannie backed loans) - borrower must be current on all obligations, including installment debt. |
| VA Loan - Late and Current | A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years . | 3 years . |
| Conventional Loan - Late* | A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years . | 2 years . |
| Conventional Loan - Current* | On any future 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 that asks "Have you had a property foreclosed upon or given title or deed in lieu thereof in the last 7 years ?" this will affect future rates. | No wait (for Freddie and Fannie backed loans) - borrower must be current on all obligations, including installment debt. |

| ISSUE | FORECLOSURE | SHORT SALE |
|---|--|---|
| Credit Score | Score may be lowered anywhere from 250 to over 300 points . Typically will affect score for over 3 years . | Only late payments on mortgage will show, and after sale, mortgage is normally reported as "paid as agreed", "paid as negotiated", or "settled". This can lower the score as little as 50 points if all other payments are being made. A short sale's effect can be as brief as 12 to 18 months . |
| Credit History | Foreclosure will remain as a public record on a person's credit history for 10 years or more . | A short sale is not reported on a person's credit history . There is no specific reporting item for 'short sale'. In most cases a loan is typically reported 'paid in full', 'settled' or 'paid as negotiated'. |
| Security Clearances | Foreclosure is the most challenging issue against a security clearance outside of a conviction of a serious misdemeanor or felony. If a client has a foreclosure and is a police officer, in the military, in the CIA, Security, or any other position that requires a security clearance in almost all cases clearance will be revoked and position will be terminated. | On its own, a short sale does not challenge most security clearances . ⁵ |
| Current Employment | Employers have the right and are actively checking the credit regularly of all employees who are in sensitive positions. A foreclosure in many cases is ground for immediate reassignment or termination . | A short sale is not reported on a credit report and is therefore not a challenge to employment . ⁴ |
| Future Employment | Many employers are requiring credit checks on all job applicants. A foreclosure is one the most detrimental credit items an applicant can have and in most cases will challenge employment . | A short sale is not reported on a credit report and is therefore not a challenge to employment . ⁵ |
| Deficiency Judgement | In 100% of foreclosures (except in those states where there is deficiency) the bank has the right to pursue a deficiency judgement. | In some successful short sales it is possible to convince the lender to give up the right to pursue a deficiency judgement against the homeowner. |
| Deficiency Judgement (amount) | In a foreclosure the home will have to go through an REO process if it does not sell at auction. In most cases this will result in a lower sales price and longer time to sell in a declining market. This will result in a higher possible deficiency judgement . | In a properly managed short sale the home is sold at a price that should be close to market value and in almost all cases will be better than an REO sale resulting in a lower deficiency . |
| Future Mortgages for Primary Residences | A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years . | A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed mortgage after 2 years . There is no wait to secure an FHA loan if the borrower is current on all of their debt obligation. |

¹ Fannie Mae Announcement 08-16; Michael A. Quinn, Senior Vice President, Single-Family Risk Officer. 3-5 Short Sales are currently not explicitly reported on a credit report. *Availability varies by lender. Sources: MORTGAGE LETTER 09-52, 4155.1 CHAPTER 4.C.2 effective date December 16, 2009. www.hud.gov/offices/adm/hudclips/letters/mortgagee/2009mlfcm



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