



## Frequently Asked Questions

### Short Sales

#### What is a Short Sale?

Basically, a short sale is when the seller's bank or mortgage lender accepts a sale of the home which equals less than what is owed on a home (also known as a "discounted payoff") to quickly offload an existing troubled mortgage.

#### Why Do Banks and Lenders Agree to a Short Sale?

Many banks and lenders are attracted to short sales because these transactions are one of the most advantageous means of recouping losses on a distressed property that would have otherwise been foreclosed on. Plus, a short sale helps lenders, banks and sellers avoid the long, drawn-out, complicated process of a costly foreclosure.

#### Is a Short Sale an Alternative to Foreclosure?

A short sale is a viable foreclosure alternative that a distressed property owner should explore before it becomes too late in the process.

If the process is started properly, with plenty of time to spare, the property owner can drastically increase the chance of a successful short sale. Short sale realtors get a lot of satisfaction from helping people who otherwise would end up in foreclosure, but often sellers contact them too late in the foreclosure process.

#### At What Point Do You Contact a Short Sale Real Estate Broker?

It is important to call a professional when the property owner is only one month or so behind in payments. While it can be difficult to approach Short Sale agent when you are in distress and it's embarrassing to admit or even face what's happening, making the choice to do something early in the process can help you save a family home and their credit.

Waiting too late in the foreclosure process to decide to start the short sale process means your real estate broker will need to increase the marketing of the property, track down the lender, drop the price way below market value and call everyone they know to drum up an offer at the last minute. And if you're too close to auction, your lender might pass on your request for a short sale.

#### What Can You Do to Improve the Chances of Short Sale Success?

There are **5 key steps** that a property owner should follow during the short sale process:

1. Ensure that the necessary paperwork is received and completed.
2. Help the Short Sale Real Estate broker show the property in the best possible condition to the most buyers. That means cleaning up and allowing the real estate broker to show the property as often as we need to.

3. Provide the Short Sale Real Estate broker with all the information about the borrower's home finances. The real estate broker needs to know how many mortgages and liens are on the property. The broker needs to know exactly what they're dealing with so they know how to approach the lender.

4. Be available at all times. One never knows when a buyer will come through or how long it will take for the bank to approve the Short Sale application. If the Short Sale Real Estate broker can't contact the seller, they can't close the transaction.

Just remember, there are options. The first step is contacting a Short Sale Real Estate broker that can answer your questions and lay out all the options.

### **How Long Do You Have to Wait for Short Sale Approval in California?**

If you follow your lender's Short Sale procedure and submit a fully executed sales contract at the approved price, along with all required documents, the turnaround time for a short sale approval or denial is only 10 days.

### **Will You Still Owe Money on Your Home Once the Short Sale Closes?**

Once the Short Sale closes, you'll have no further responsibility for repaying the mortgage (this would not necessarily be true for short sales conducted outside of the HAFA program). You also will receive \$3,000 toward relocation expenses. Contact an accountant to find out how this will affect your taxes.

### **How Will a Short Sale Affect Your Credit?**

If you are more than 59 days late when you complete your Short Sale, the effect of the Short Sale on your credit report could be identical to that of a foreclosure. The mark on your credit will appear as a pre-foreclosure in redemption status, which could result in a loss of 200 to 300 points. This means if your previous FICO score was 720, it could fall from 520 to 420.

### **What Are the Advantages of a Short Sale?**

The main benefit of a short sale is that the distressed property owner gets out from the obligations of the mortgage without liability for the deficiency --- and also, avoids having a foreclosure or a bankruptcy on your credit record. The general thinking is that one's credit doesn't suffer as much as it would were the foreclosure proceed or if the property owner filed for bankruptcy.

### **What Are the Disadvantages a Short Sale?**

The property owner has to have a documented offer from a buyer before one can learn whether or not the lender will agree to a short sale. In a market where sales are hard to come by, this can be frustrating because sellers won't know in advance what the lender is willing to settle for.

Be aware that a short sale may generate taxable income based on the amount the sale proceeds. If a seller is unsure about the tax issues, contact an accountant and ask how selling a home by Short Sale will affect your taxes.