Field Guide To Short Sales

Thank you for contacting Michelle Houze and The Scottsdale Short Sale Team and for your interest in Short Sales. I have attempted to put together the most comprehensive, yet easily understandable, Field Guide to Short Sales that is available. I hope that you agree!

In the following pages, you will learn about the short sale process, the consequences, the benefits and everything in between.

As a Realtor®, I am a member of the National Association of Realtors which means that I am held to a higher ethical standard than non– NAR members. I also carry an SFR® designation through the NAR, which is the **Short Sale and Foreclosure Resource Certification**.

Please rest assured, should you decide to choose me to represent you in your short sale, I do not come alone. I have compiled a team to ensure a successful transaction and your utmost satisfaction. In fact, I utilize a professional short sale management team that does nothing but work the process to help facilitate a smooth transaction.

And the best part is: this costs you nothing!

Please enjoy this Guide and contact me with any questions you may have! I am looking very forward to meeting with you to discuss your options SOON!

Warmest Regards!

Michelle L Houze PLLC, SFR®

Michelle Houze

From Houze to Home, Your Complete Real Estate Professional

Michelle L Houze PLLC, SFR — Direct 480-206-1313
HomeSmart — Fax 480-302-8418

Michelle@HomesByHouze.com
www. ScottsdaleShortSaleTeam.info www.HomesByHouze.com

EQUAL HOUSING OPPORTUNITY

REALTOR® MULTIPLE LISTING SERVICE MLS®

HOMESMART®

Introduction...

How can I get out from under the debts on my home?

If the market value of your home is less than what you owe on your current mortgage, you may qualify for a legal, lender approved solution known as a Short Sale. A Short Sale can be accomplished by negotiating with your bank or lending institution to accept a sale of your property to a third party buyer for less than what you currently owe on your mortgage balance.

The short sale of real estate is not a questionable practice in today's softening real estate market, it may be a necessity. The short sale transaction is a legal and much more beneficial alternative to foreclosure or even bankruptcy. Lenders are motivated to accept short sale offers to for a number of good reasons. The short sale of your home can result in a win-win-win situation for all parties involved:

Benefit #1: You win by getting out of a financial predicament with a clean transaction and a salvaged credit score. Your property is saved from foreclosure, thus helping you to save your credit rating.   Allowing your home to proceed into foreclosure may adversely affect your credit for up to 7 years.

Benefit #2: The lender wins by avoiding timely and expensive foreclosure proceedings which could lead to an even more costly expense of ownership of the real estate by the bank.

Benefit #3: The buyer of your property wins by getting a solid property at a good market value.

This Short Sale Field Guide will provide you with helpful information, articles, resources and news to help you decide if a short sale is appropriate for your situation. There are other options to foreclosure and we're here to help you get a better understanding of what they are.

Michelle@HomesByHouze.com
www.ScottsdaleShortSaleTeam.com   www.HomesByHouze.com

Foreclosure prevention, successful real estate short sales.

Short sales allow a homeowner to sell a property worth less than the debts secured by it. Typically, the lender agrees to accept the net proceeds from a closing in exchange for releasing its lien. Lenders are not agreeing to a short sale to be generous, they are convinced that it will come out better than it would by foreclosing on the home and pursuing the borrower for its losses. While the procedures for a short sale will vary from lender to lender, most lenders need to be convinced of the following:

The sales price of contract is equal to what they would be able to sell the property for after a foreclosure. While the lender may review the market analysis provided by the agent, they will often confirm the market analysis by contacting its own sources, such as an appraiser.

The commission for the transaction is equal to the commission it would pay its agent for selling the home after foreclosure. The lender will need to know as precisely as possible the amount of proceeds it can expect to receive from the sale.

The lender will want an explanation of the circumstances which caused a short sale in the first place. These usually include decreased income, loss of employment, medical bills, divorce and even death.

If the seller doesn't have the resources to make up the mortgage shortfall on their own, the lender will require a full assessment of the financial condition of the seller. Financial statements, income and expenses, tax returns and the seller's paycheck stubs should be provided. The seller's financial condition is a tricky proposition. While the lender will be reluctant to approve a compromise without reviewing strength of the seller, this information will help the lender in pursuing the seller for a post-foreclosure deficiency if the short sale does not take place.

Michelle@HomesByHouze.com
www.ScottsdaleShortSaleTeam.com www.HomesByHouze.com

Field Guide to Short Sales

Top 10 questions about Short Sales.

1. What is a real estate short sale
A real estate short sale is a form of agreement between the seller of a home and their lender, allowing the home to be sold for less than the existing loan balance outstanding. The mortgagee would accept less than the loan amount in order to avoid a foreclosure proceeding. This short sale would result in a substantially discounted purchase price for the buyer of the home.

2. How late in the pre-foreclosure process can you start a short sale?
Depending on individual state law and regulations and the lien holder, a foreclosure can proceed as quickly as 35 days from the date the notice to the borrower is filed. In Arizona, you can expect that a sale date will be scheduled 90 days after the Notice of Trustee Sale. For that reason, time is of the essence and you should allow a window of no more than 60 days to effectuate a lender approved short sale. On many occasions, the banks will postpone the Trustee sale if the home is for sale as a short sale or a contract to purchase exists on the home. Some banks do not require you to be late on payments to approve a short sale.

3. Will a lender allow a real estate short sale when the seller has some a good amount of equity?
Generally no. If the home has a considerable amount of equity, the lender may choose to continue with a traditional foreclosure proceeding to regain title to the property and dispose of it at a market price. A surplus of homes for sale in the market area of the home may make the lender think twice about taking title to the property.

4. What documents are necessary to proceed with a short sale?
The individual documents necessary to proceed with the short sale will depend on the lender. Typically the lender will require a hardship letter detailing the circumstances behind the short sale, a signed, valid purchase and sales contract (if available), preliminary HUD-1 settlement statement and a preliminary estimate of proceeds to the lender. There may be additional requests for more detailed information on the financial condition of the seller, i.e.; pay check stubs, bank statements, a personal financial statement and monthly budget assessment, amongst other things.

5. Will the seller's credit rating be affected if they allow a short sale on their property to occur?
While it is up to the individual lender to decide what to report, what often happens is the loan will report as "paid" on their credit report. While this may be good news, the bad news is that there will likely be a reference that says "settled for less than originally owed" or something similar. It is certainly more advantageous to have the short sale referenced than to have a foreclosure on their credit report.

6. Will a lender allow the seller to make a profit on a short sale?
By the nature of the transaction, the seller is not going to make a profit on the short sale. They may have extracted equity from a previous refinance of the home, but their current loan balance will be higher than the selling price of the home.

7. If a seller is in bankruptcy, will that affect the short sale of the property?
Absolutely, as most lenders would not consider a short sale if the homeowner is in the middle of a bankruptcy proceeding. Negotiating a short sale between the parties is considered a collection activity and such a negotiation is prohibited in bankruptcy.

8. Will the bank or lender require an appraisal on the home in a short sale?
Most lenders will only require a BPO or brokers price opinion to get started. The lender will need some formal assessment of the value of the home in order to make a decision as to accept or reject the short sale offer.

9. Are there tax implications in the short of real estate.
Much like the issue of credit reporting, the circumstances are individual to the lender. As a short sale represents a loss for the lender, they can report the amount lost a debt forgiveness to the seller. If a formal tax form 1099c is filed, the seller may be responsible for paying taxes on the amount of debt forgiveness. There may be protections afforded to you. It is best you get legal and tax professional advice.

10.Why would a lender allow a short sale to occur.
Quite simply, it may benefit all the parties involved in the transaction. The seller is relieved of the home they cannot afford. A costly foreclosure proceeding by the lender is avoided and the buyer purchases the home at an attractive price.

Michelle@HomesByHouze.com
www.ScottsdaleShortSaleTeam.info www.HomesByHouze.com

Let's begin...

As a homeowner you should accomplish the following from the onset:

Find a Realtor® to help with this process.
Be sure that the agent you hire is experienced and comfortable with short sales. Many agents do not have the experience or the level of comfort needed to successfully close a short sale transaction.

Assess the value of your home.
Get an estimate from your selling agent. Don't use last year's prices for today's sale. Use sales within the last 3 to 6 months only.

Determine all the liens on your property.
This would include first and second mortgages, delinquent taxes, Home Owners Association dues or special assessments or mechanics liens; anything that will have to be removed from title in a closing.

Understand the costs of selling your home.
Your agent should provide you with an estimate of closing costs. These will come from the title company. Generally, the costs incurred to sell the home via short sale are costs paid by the lender, as they assume the role of "seller".

Finalize your Figures
Add up the total amount of liens, obligations and costs against your home in sum, against the value of your home and you should end up with a negative number, hence a short sale.

Speak with your lender, regularly.
Speak to customer service to locate the loss mitigation department. Make professional contact and give a brief summary of your situation. Talk to the supervisor or manager of the loss mitigation department; this person will have more accurate information. Inform them of your choice to short sale and let them know who will be representing you in this transaction. In most cases, you will need to give a representative, either your agent or their short sale team, written permission to negotiate the short sale on your behalf.

Begin to compile your Hardship Package.
Your lender will want you to prove your hardship. They will want to collect an entire package for their review. Please see page 7. (We will help you prepare this!!)

Understand what your lender wants and their procedures for a short sale.
Many lenders may have alternatives and may be willing to work with you by modifying your loan or pursuing other alternatives. It's extremely important to find out what their position is up front in order to increase the likelihood that the short sale will occur.

Don't delay.
In a foreclosure, the clock is ticking. Know your timelines and stick to them. Communicate any delays to your lender and all parties involved.

Why would a lender allow a short sale?

You need to know the lender's perspective in a short sale.

Your mortgage lender will be considering a number of factors in deciding whether to approve a short sale. A review of your circumstance, whether you deserve a break due to financial hardship caused by uncontrollable circumstances such as loss of income, divorce, layoffs, illness or death. They will also take a hard look at whether it would be more profitable to them to simply proceed with the foreclosure process on the house, make any necessary repairs and sell it through an agent. The number of other real estate owned (REO) properties they have in their portfolio will affect their decisions as well.

The process

When a borrower falls behind on their payments, the loan is usually sent to the lender's loan loss mitigation department. Most lenders also consider short loan payoff sale requests in their loss mitigation departments.

Your chances of success with your lender improve if your communications with them is organized and complete. Your contact with your mortgage lender's loss mitigation department should be professional. You'll want to send them the appropriate documentation and provide them with any additional information that they may require.

Keep in mind that lenders will approve a short sale as a last resort to avoid foreclosure. If a home was purchased at the height of the market and has depreciated considerably, the home may be "upside down", or is worth less than is owed. The lender may consider a short sale. The same is true for a property that was recently refinanced at 100% or on an option arm leaving the property without equity.

Keep in mind that your lender is not in a position to manage property; they are in the lending business. A home, while it's sitting vacant waiting for sale, is accruing costly insurance premiums, taxes, and repairs. The lender is losing even more because the lost interest they could be receiving on their asset. They have their money invested, but are making nothing from the investment until the property sells. If a short sale can be accomplished, their money is returned and they are no longer losing money on the investment. In a short sale the bank may even be willing to finance a new owner, making it a win/win for all parties.

Field Guide to Short Sales

The documentation you'll need to accomplish a short sale.

Our Team will guide you through these steps or handle them for you!

While many lenders will have varying requirements and may demand that a borrower submit different types of documentation, the following should be treated as a guideline of what is required in a pursuing a short sale.

Contact your lender immediately
You need to make the effort to find the right person responsible for handling a potential short sale. You want to talk to the person in charge of loss mitigation for the lender; you want a supervisor's name and/or the name of the individual capable of making these kinds of decisions.

Submit a letter of authorization
Your lenders will not want to disclose any of your personal information without written authorization to do so. If you are working with a real estate agent, closing agent, title company or lawyer, you will receive better cooperation if you write a letter to the lender giving the lender permission to talk with those specific interested parties about your loan. You should include the following information: name, address, loan number, third party agents involved and contact information on both the agents and yourself. **(I have this as a form, ready for you to fill out!)**

Preliminary estimate of your lenders proceeds
A preliminary HUD-1 settlement statement that indicates the sales price you are under contract for and all the costs of sale, unpaid loan balances, outstanding payments due and late fees, including real estate commissions, if any. Your third party agent (realtor, title company or lawyer) should be able to prepare this for you. The bottom line should not indicate any net proceed to the seller.

Your circumstances, in the form of a hardship letter
A complete description of the facts that brought you to financially challenging situation and why you have a valid reason for the lender to accept less than full payment. Lenders can understand many circumstances are unavoidable, loss of job, death, divorce, etc., but they are not very compassionate to situations involving dishonesty, misrepresentation or criminal (or criminally negligent) behavior.

A complete financial statement
Be truthful about your current financial situation and disclose your assets and liabilities. Provide information on savings accounts, money market accounts, stocks or bonds, cash, real estate or anything of tangible value. Your lender will need to be assured that you cannot pay back any shortfall in the short sale transaction.

Proof of valuation
Many homeowners caught by the current downturn of the real estate market have lost significant equity in their home. This should be part and parcel as to why you cannot sell your home for enough to pay off the existing lien. You need to substantiate this value to the lender through a proof of valuation. This can be done through a Comparative Market Analysis provided by your agent.

Your purchase agreement and listing agreement
The lender will want a copy of the executed offer, along with a copy of your listing agreement. Be prepared for the lender to renegotiate commissions and to refuse to allow payment of certain items such as home protection plans or seller concessions inspections.

If your package is complete, the facts are accurate and the circumstances speak for themselves, the lender should approve your short sale. Within the ongoing communications and negotiations, you should ask that the lender not report any adverse credit references to the credit reporting agencies, although they would be under no obligation to accommodate this request.

Michelle@HomesByHouze.com
www.ScottsdaleShortSaleTeam.info www.HomesByHouze.com

Options To Save Your Home or Avoid Foreclosure

The current U.S. housing market and national financial crisis has caused untold stress and heartache for many American families. Foreclosure is one of the most devastating financial challenges that a family can face and one that many times can be avoided. The options available to Phoenix-area residents for foreclosure are many. Following is a brief explanation of these solutions, including their benefits and drawbacks:

Reinstatement
A reinstatement is the simplest solution for a foreclosure, however it is often the most difficult. The homeowner simply requests the total amount owed to the mortgage company to date and pays it. This solution does not require the lender's approval and will 'reinstate' a mortgage up to the day before the final foreclosure sale.

Forbearance or Repayment Plan
A forbearance or repayment plan involves the homeowner negotiating with the mortgage company to allow them to repay back payments over a period of time. The homeowner typically makes their current mortgage payment in addition to a portion of the back payments they owe, resulting in a higher payment.

Mortgage Modification
Many mortgage servicers can adjust the terms of your loan -- most often by lengthening out the amortization schedule of your loan, lowering the interest rate or rolling the deficiency into your loan and re-amortizing the new balance, all in an effort to bring your loan current. No lender wants a mortgage in default.

Rent the Property
A homeowner who has a mortgage payment low enough that market rent will allow it to be paid, is able to convert their property to a rental and use the rental income to pay the mortgage.

Service members Civil Relief Act (military personnel only)
If a member of the military is experiencing financial distress due to deployment, and that person can show that their debt was entered into prior to deployment, they may qualify for relief under the Service members Civil Relief Act. The American Bar Association has a network of attorneys that will work with service members in relation to qualifying for this relief.

Sell the Property
Homeowners with sufficient equity can list their property with a qualified agent that understands the foreclosure process in their area.

Short Sale
If a homeowner owes more on their property than it is currently worth, then they can hire a qualified real estate agent to market and sell their property through the negotiation of a short sale with their lender. This typically requires the property to be on the market and the homeowner must have a financial hardship to qualify. Hardship can be simply defined as a material change in the financial stability of the homeowner between the date of the home purchase and the date of the short sale negotiation. Acceptable hardships include but are not limited to: mortgage payment increase, job loss, divorce, excessive debt, forced or unplanned relocation, and more.

Deed in Lieu of Foreclosure
Also known as a 'friendly foreclosure', a deed in lieu allows the homeowner to return the property to the lender rather than go through the foreclosure process. Lender approval is required for this option, and the homeowner must also vacate the property. Please be aware that very few lenders in Arizona are considering this option.

Michelle@HomesByHouze.com
www.ScottsdaleShortSaleTeam.info www.HomesByHouze.com

Tax Implications

Tax implications of the Short Sale and the EXCEPTIONS that may save you!

If you are considering a real estate short sale of your home, you should be aware that you may receive a form 1099-C for the amount of the lender's losses. This is considered loan forgiveness in the eyes of the IRS.

If you have other assets such as savings and you are not insolvent, you may end up being responsible to pay ordinary taxes on the amount of the 1099-C.

If you settle a debt with a creditor for less than the full amount owed, you are required to report this forgiven debt as regular income, with certain important exceptions. The forgiven debts include money owed after foreclosure or property repossession or credit accounts that you don't pay.

If a lender forgives or writes off $600 or more of a debt's principal (the amount not including interest or fees), they must send you and the IRS a Form 1099-C at the end of the year. When you file your tax return for the tax year in which your debt was written off, the IRS will require that you report the amount on the form as income.

While you may not have received this form from the creditor, the creditor may have submitted one to the IRS anyway. If you don't list the income on your tax return and the IRS has the information of the transaction on file, you could get a tax bill or, worse, an audit notice. This could end up costing you more than just the original tax bill.

There are two VERY important legal avenues for you to investigate…

- **Mortgage Forgiveness Debt Relief Act of 2007**
- **Arizona Anti-Deficiency Statutes**

**These may alleviate or limit the financial repercussions of a Short Sale or Foreclosure.
For detailed information specific to your situation, please seek the qualified advice of your tax professional or real estate attorney to determine if either of these will apply.**

I am not qualified to give tax, debt or legal advice.

Michelle@HomesByHouze.com
www.ScottsdaleShortSaleTeam.info www.HomesByHouze.com

Thank You!

I hope that this lengthy packet has answered some of your questions.

Please contact me to discuss your options, get a comparative market analysis or to talk about listing your home!

You have options that won't cost you anything!
Don't feel overwhelmed, alone or threatened by your lender.
There are things that you can do TODAY to stop an impending foreclosure.
Let's sit down and talk about how I can help you find another path!

I look forward to meeting you with you very soon!

Thank You
Michelle L Houze PLLC, SFR®

Michelle Houze
From Houze to Home, Your Complete Real Estate Professional

Michelle L Houze PLLC, SFR
HomeSmart

Direct 480-206-1313
Fax 480-302-8418

Michelle@HomesByHouze.com
www. ScottsdaleShortSaleTeam.info www.HomesByHouze.com

EQUAL HOUSING OPPORTUNITY

REALTOR® MULTIPLE LISTING SERVICE MLS®

HOMESMART