

Short Sale 101

**Frequently Asked Questions Answered by
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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 still a relatively 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 whatsoever 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, Mortgagees the Homeowner and Realtors all benefit from the successful short sale. Mortgagees get the majority of their money back, Mortgagees get the relief they need and are able to sell their property and avoid foreclosure, and Realtors can facilitate the transaction and receive compensation (commission) from the sale of the property. The Homeowner then no longer owns the home.

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 sounds 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.

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

Yes! I have successfully negotiated short sales for each of these loan types.

Why does my property have negative equity?

Here are a few common reasons:

1. Person bought at the height of the market and the market has now declined or paid more than the property was worth.
2. The area has become less desirable for any number of reasons, so property values have declined.
3. 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,
4. Person refinanced the home (with a high appraisal value) and now has little or no equity.
5. 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
6. 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 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.

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 Policy and other seller closing costs).

Why not just let my lender foreclose on the property?

Not necessarily your best option! What is the first thing banks do when they foreclose on a property? Hand it over to a real estate agent to get rid of it quick! The foreclosure process is a *legal* process. It involves attorneys and it costs MONEY. Once they get the property back via foreclosure they must often sell it for MUCH LESS than market value and pay Realtor commissions and all customary closing costs. It makes 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 I have successfully negotiated short sales for folks 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. However, banks prefer to negotiate those that are behind in their payments first.

How long does it take?

Although it should take less time, short sale approval can take 60 days or longer.

What if my home is already in foreclosure?

Your foreclosure sale will usually be suspended during the short sale process. That's why it's imperative that you contact us right away!!!

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

In 2007 the U.S. Congress passed the Mortgage Debt Forgiveness Relief Act and it is in effect until 2012. As a result of that act, borrowers no longer pay taxes on the debt forgiven on their primary

residence if they are insolvent. So if the property is your primary residence, then no, you may or may not receive a 1099 for the debt forgiven.

For investment property, the lender does have the right to report to the IRS the amount they have 'forgiven' in a Short Sale transaction, the amount of the resulting tax will be far less than the debt forgiven. For example, we had one client who did get a 1099 for \$30,000 forgiven. This resulted in additional taxes of \$1,300 for that year. The resulting tax is far superior to paying the difference of the debt. Also, if the property is in foreclosure, the foreclosure would have a much more devastating affect on you than the amount of the 1099.

For more information go here:

<http://www.irs.gov/individuals/article/0,,id=179414,00.html>

How much will the short sale cost me?

We do not charge any fees for processing a short sale for you. All that we ask is that you be completely honest and upfront with us from start to finish of the short sale. That is the only way we will be able to successfully complete the process for you. Our fees are paid by your lender upon closing the short sale.

What kind of marketing will you do on my property?

We have successfully sold many short sales – more than any other real estate team in the area.

On our regular listings, we do employ an extensive marketing plan, however, we have found that traditional marketing mediums (flyers, virtual tours, open houses, etc. are not effective at generating offers on short sale listings.

What generates success on our short sale listings is over 90% dependent on the property's PRICE. We typically review the pricing with you and make adjustments every week or so until an offer is generated.

In addition to pricing, we employ a strong internet marketing presence. We have teamed up with REALTOR.com, Keller Williams Realty and other prominent web portals to market your property on over hundreds of web sites.

Do you think I should just do a loan modification instead of a Short Sale?

If you desire to keep your home and can afford to make the monthly payments, then YES you should keep it! In order to qualify for a loan modification, you will need to demonstrate to the bank that you are generating more income than your current monthly expenses.

Is this the case? If so, you will need to call your lender and let them know you want to do a loan modification, and see if they will qualify you for their loan mod program. If you aren't approved, we can then move forward with a short sale. Please be aware that fewer than 3% of people who apply for modifications actually get a modification and it may take 3-6 months to get an answer from the bank. Unfortunately I have had several clients tell me that their bank has authorized a temporary modification only to decline it and then charge them additional fees. A practice I find disturbing.

Can I lease my house while we're waiting on the short sale?

We don't recommend that you lease your home while waiting on the short sale to be finalized. Lenders will not be sympathetic to sellers who are collecting rent payments and not making their mortgage payment. Also, homes with tenants are subject to legal rules (tenant rights) and much more difficult to show and to sell. Not recommended.

How will you decide on the list price of my home?

Initially we will set the price based on an extensive market analysis. Once we have an offer we will submit that to the bank. Once the bank agrees to do a short sale on your home, they will hire their own independent appraiser who will come out and view your home, and set a valuation, based on its condition.

In order to get the process going quickly, we will need to send you our short sale package and get all of the necessary information we need back from you first, before one of our team members goes out to put up the sign and lockbox.

How do I get the process of short sale going?

All you need to do is click on the link below or call Frank Kenny at the number below. He will ask you a number of questions to determine your success of doing a short sale. Once it has been determined that you qualify for a short sale, Frank will send the documents to you to get started. It's that easy.

Who will let me know what I need to do to the home to get it ready for sale?

We won't be recommending that you do anything to the home that will cost you money. The truth is, since you won't be netting anything from the sale, the last thing you probably want to do is spend more money on a home you no longer can afford. For that reason, we will be selling your home as-is. Our only suggestion is to clear out as much clutter as you can. Other than that you're OK. The lender will price your home according to its condition.

If you need to sell your home you can contact
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