**What is The Short Sale Process**

Following is a typical short sale process at the bank:

* Bank acknowledges receipt of the file. This can take 10 days to a month.
* A negotiator is assigned. This can take 30 to 60 days.
* A BPO/Appraisal is ordered. The bank probably will refuse to share the results of the BPO.
* A second negotiator may be assigned. This can take another 30 days.
* The file is sent for review or to the investor. This can take 2 weeks to 30 days.
* The bank may then request that all parties sign an Arm’s-Length Affidavit.
* The bank issues a short sale approval letter.

**What Does The Bank Consider a Short Sale Hardship?**

How do banks define hardship[?](http://www.trulia.com/blog/nevadashortsaleexpert/2012/03/why_government_loan_modification_programs_have_failed_us) *A hardship exists when there is a decrease in income and/or an increase in expenses.* Many people think that you must be “broke” to have a valid hardship. This is not true. Banks will read the hardship letter to assess why a borrower is having financial difficulties. What situation triggered the problem? When did the problem arise? How has the borrower attempted to cope with the resulting financial difficulties? The underlying reason behind most delinquent mortgage payments is what the mortgage industry defines as a “hardship condition.” A hardship is an unexpected financial crisis of some sort. Although it is the lender who ultimately determines whether a situation will be deemed a “hardship,” HUD guidelines may help determine status. HUD recognizes the following situations as valid hardships and justification for default:

* *Death of principal mortgagor*
* *Death of mortgagor’s family member*
* *Illness of principal mortgagor*
* *Illness of mortgagor’s family member*
* *Marital difficulties*
* *Curtailment of income*
* *Unemployment*
* *Excessive obligations*
* *Inability to sell property (this is true for all of Las Vegas)*
* *Job Relocation*
* *Property problem (roof leaks, construction litigation, etc.)*
* *Incarceration*
* *Inability to rent property*
* *Military Service*
* *Casualty loss (such as a Hurricane, etc.)*
* *Energy-Environmental costs*
* *Servicing problems*
* *Payment adjustment (ARM Adjusting)*
* *Payment dispute*
* *Transfer of ownership pending*
* *Fraud*
* *Abandonment of property (due to condition of property, for instance)*

It is important to keep in mind that some scenarios may meet these criteria and yet not be viewed favorably by a lender. Additionally, the more proof of the hardship which a borrower is able to produce, the better.

Bottom of Form

**In the Short Sale Hardship Letter You Must:**

* *State the legitimate, special circumstances which have caused you to fall behind on your house payments.*
* *Explain your current situation and what you are doing to try and get back on your feet.*
* *Don’t make your situation worse, by complaining to them.*
* *Be honest and represent the facts clearly.*

***Even if the hardship does not completely meet the criteria of a true hardship, the lender may approve the short sale because they believe that the property is going to go into foreclosure regardless.***

**NOTE:** As you write the hardship letter, you need to accomplish two goals.

You MUST:

1) Provide as much written explanation of your hardship as possible. Be specific.

2) Convince the bank that you are unable to make any more payments

**NOTE:** As you write the hardship letter, you need to accomplish two goals.

You MUST:

1) Provide as much written explanation of your hardship as possible. Be specific.

2) Convince the bank that you are unable to make any more payments

The borrower should write the letter in their own words, but they need to make sure that there is a clear picture of their financial condition, and back up their claims to hardship with documentation, such as pay stubs, medical bills, job layoff letters and more. The numbers should clearly illustrate that the borrower is headed for foreclosure or bankruptcy. This will motivate the lender to cooperate.

Lenders are all about numbers, so the letter isn’t a sob story about the borrower’s difficulties. It should be a factual description of a financial situation that is leading up to a bankruptcy or a foreclosure on their home, or both. The lender must be convinced that their only other option is foreclosure, and then they can analyze the numbers to see if a short sale is a preferable alternative.

The short sale hardship letter can be typed or handwritten, but we have found that handwritten is most effective. It should contain some standard elements at the top of the letter including the name of the borrower(s), the date, the lender and the loan number. The end of the document should have the borrower’s signature with the date, as well as the signature of any co-borrower. The length is not important so make it as long as needed to have the desired impact.

**Sample Short Sale Hardship Letters**

(Date)

(Company’s Name)
(Company’s Address)
RE: (home address)
Loan number: (#)

Dear (Ms/Mr. Brown:)

We have purchased our family’s home in (date).

Since then, as you know, our country has experienced one the biggest housing market crashes in history. This, combined with the rising food and gas prices and current slow down in the economy, has affected our ability to pay our bills on time.

Our adjustable interest rate mortgage payment has increased from ($) to ($) since we first purchased the house making it especially hard to keep it current. In the last couple of years our home has lost about (55%) of its value making it impossible to refinance it since the equity we once had is now gone.

In the last three months our family’s economic situation has gotten even worse because (explain what caused the financial hardship. Ex: job lay-off, death in the family, medical emergency,…) and we can no longer afford the new payments.

At this point we are trying to avoid foreclosure and/or bankruptcy and would like to discuss with you the possibility of getting a short sale approval that could be beneficial for both parties.

Enclosed, please find copies of our financial statements. (include documents that offer proof of financial hardship: Copies of any unpaid bills and/or late notices you have received in the last six months. Including: credit cards, car payments,…Past two months of Proof of Income. Including: past two months paycheck/paystubs, social security,… Last quarter’s profit and loss statement if self-employed, past two years of federal income tax returns, past two years W-2′s, and last two months of bank account statements.)

We truly appreciate any effort you can make to help our family through this situation. Please feel free to contact our Realtors.

I/we, (Home Owner Name/Co-signer Name), state that the information provided above is true and correct to the best of my/our knowledge.

Sincerely,

(Home Owner Name)
(Co-signer Name)
(Home Owner Address)
(Account #)

**Example Hardship Letter for Short Sale**

(Date)

(Lender Name)
(Loan number)

RE: Hardship Letter – Short Sale for (your address)

Dear Creditor:

Since last (month) I am experiencing financial difficulties due to (layoff, medical problem).

After having my current financial situation carefully analyzed, I have concluded that it is no longer possible to comply with the original terms of the agreement. I have no choice but ask you for your help on avoiding the foreclosure of my family’s home.

Due to the dropping of home prices that have affect the entire country in the last year, I currently owe more on my mortgage than my home is actually worth.

Please consider allowing me into your Short Sale Program so that we can lower the price and sell the house quickly before it goes into foreclosure. This will allow me to settle my financial obligation to you and have a chance to get back on my feet, without having to file for bankruptcy.

Please understand that financial hardships can occur and many times it‘s not a choice. I deeply appreciate your help in this matter. If you have any questions, or need anything further from me, you can contact my Realtor.

I am enclosing my (last two months bank statements, last two year’s federal tax returns, last two pay stubs for all working borrowers, and my last two year’s W-2′s .

I, (your name), state that the information provided above is true and correct to the best of my knowledge.

Sincerely,

(Home Owner Name)
(Address)
(Account number)

**Example Hardship Letter For Short Sale**

Lender Name

Loan Number

Today’s Date

RE: Hardship Letter – Short Sale for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ address

To whom it may concern:

I purchased my home at \_\_\_\_\_\_\_\_\_\_\_\_\_ in \_\_\_\_\_\_\_\_\_\_\_. At that time I was employed by \_\_\_\_\_\_\_and business was very good. My salary and the possibility of a promotion and raise made me sure that I could easily support my mortgage. Unfortunately, a downturn in the market caused my company to reduce its workforce and I was laid off.

After searching for a comparable job, I finally got a temporary position as an office assistant as I continuing seeking other work. I struggled for several months to make my mortgage payment, and was also hit with some medical payments that I did not expect (the COBRA payment was more than twice what I was paying when employed). I knew I would have to sell my home to protect my credit rating and possibly have enough cash left over for moving expenses and some savings. I recently put my home up for sale, however, there were several problems that I did not have enough money to fix, such as the broken fence in the back yard and some pretty severe leaks in the roof which indicated a new one was needed.

I really love my house, but I know that I cannot afford it. I am a single parent, working as a temporary employee with few benefits and no savings. My financial situation cannot sustain a home mortgage of nearly $2200 per month. I want to sell the home, avoid foreclosure and salvage my credit. I know that a foreclosure on my record will affect me for years to come. I would ask that you please assist me in avoiding this.

Please accept this offer as payment in full. My attorney has advised me to file bankruptcy, but I prefer to avoid further destruction of my credit. I respectfully request that this short sale be approved, otherwise, I will have no choice but to file bankruptcy for my own protection. I just want to move on and start over.

I deeply appreciate your help and understanding in this matter. If you have any questions, or need anything further from me, please contact my Realtor.

Sincerely, Home Owner Name Address and Contact Information

[**Frequently Asked Short Sale Questions**](http://top-short-sale-agent.com/frequently-asked-short-sale-questions)

**What is a short sale?** In its simplest form a Short Sale occurs when a lender sees that its position on an asset, (home loan) is about to go into default or already is in default due to non payment of the debt by the home owner. When this happens the lender then has two options. One, to foreclose on the property and in today’s market take a substantial loss. Or two, to allow the sale of the home for less than the amount owed on the note and minimize their losses.

**Why would a lender do a Short Sale?**

Lets face it the banks for the past 50 years have known that 5-10% of their borrowers will face a hardship (divorce, financial , loss of a job, unexpected medical condition, death, loss in income, job relocation, etc)

While most lenders will not be thrilled at the prospect of a short sale they are acutely aware that a foreclosure is usually a far more time consuming and costly option. In a real estate market where housing values are going down it is in the best interests of the lender to liquidate their problem loans as quickly as possible.

With a short sale a property can be sold and the loan taken off their books fairly quickly. If they pursue a foreclosure they run the risk of the process taking a substantial amount of time during which the value of the property is depreciating.

Also, buyers will tend to write low ball offers when they know that a bank or lending institution owns the property. The property will also be left vacant which can result in vandalism and deterioration. Some owners will even gut the house just before the foreclosure sale as a way to “get back” at the lender. This is illegal but nonetheless happens on occasion.

In addition the bank are not in the property management business. If they foreclose they will have to maintain the lawn, utilities, insurance. And in the end they will have to list the home and pay a commission anyway.

**How does a homeowner know if they qualify for a short sale?**

As the rate of defaulted loans continues to climb, the rules of the game are ever changing. When a homeowner decides to pursue a short sale for the liquidation of their property, a few hard and steadfast guidelines are present. One cannot hope to get a short sale of their property just because they decide to stop making their payments. Short Sales are designed to help people facing hardships, whether due to poor judgments with their finances or the cause of some unforeseen hardship like: loss of income due to death, divorce, illness, job relocation, loss of job, etc. The following is a list of basic requirements for your lender to consider a short sale.

* Payment is delinquent. In the past lenders wouldn’t even consider a short sale on a note that is current. Times are changing and some lenders are being pro active and allowing short sales on properties that are current, but exhibit proof that the loan will become delinquent very soon.
* The value of the home is such that when the property is sold for fair market value, all the costs associated with the sale such as; closing cost, Realtor commissions, and full payoff of the note cannot be realized.

**Example:** Your home is valued at $300,000, you owe $300,000. By the time you sell the property for $300,000 the costs for closing and Realtor commissions will total somewhere around $30,000. In this scenario the lender would only receive the remaining $270,000 (not enough to cover the $300,000 balance owed)

* A hardship must have occurred. The lender wants to see what changed in the homeowner’s life that warrants the potential short sale. Homeowners wanting to quit making payments for other reasons won’t qualify.

**Why would a homeowner pursue a short sale vs. foreclosure?**

The simple answer is credit rating and the ability to limit future judgments. Lets look at some of the differences in short sale vs. foreclosure from a homeowner’s perspective.

Foreclosure:

* Court Settlement can be high
* Credit Ruined
* Big Attorney Fees
* No peace of mind
* Hard to buy again with in 10 years
* Deficiency could result in civil lawsuit

Short Sale:

* Negotiate the settlement
* Credit bruised
* No attorney fees
* Seller has piece of mind
* You can buy again with in 2 years
* Liens negotiated
* Sellers can stay in the house longer
* Zero money comes from the sellers pocket

As this illustration shows, doing a short sale keeps the homeowner in control and allows the process to be finalized without wondering what might pop up in the future. Another way to look at this is from the position of, what is there to lose in pursuing a short sale? The answer is nothing. If the sale cannot be obtained, the property will go to foreclosure. At least you have the peace of mind knowing you did everything possible to help the situation, rather than just sticking your head in the sand.

**What Paperwork will I need in order to do a short sale?**

The answer is you will be required to open up your life to a select few in order to get the short sale done. The lender requires proof that you the homeowner NEED a short sale. They will want to see the following:

* Hardship letter
* Financial sheet showing all income and out going payments
* Last two months bank statements
* Last months pay stubs
* Last two years tax returns or W-2s

**How much time before the lender forecloses and I have to move?**

Typically the short sale process takes 90 days. In most cases once the bank receives the short sale paperwork they will slow down and in many cases even stop the foreclosure once they receive paperwork from us. At that point it normally takes 90 days for approval. We can work with you if you need more time.

**What if I have 2 mortgages and or multiple Liens?**

We often see this we work with both banks or multiple banks on a short sale and any lien holders. Realize that any junior lien holders that means the 2nd mortgage and any 3rd mortgage or liens of credit or any other liens all are familiar with short sales and we work with each of them to get an agreeble settlement.

**What If I cant pay the mortgage?**

No problem if you cant pay the mortgage we recommend saving as much as you can for your eventual move. Most banks in a short sale scenario understand that you cant send payments.

**What If I can pay the mortgage?**

If you are in a position that you can pay your mortgage, that is ok. We process the paperwork and if the lender requires that you be behind in order to do a short sale that will be your choice. We see many cases where homeowners can pay the mortgage but upon their relocation or an upcoming event they anticipate they wont be able to. More and more lenders are allowing borrowers to be current while they evaluate the short sale. There is no cost to you to process a short sale with us and no adverse affect on your credit if you are paying your mortgage and requesting a short sale. The only time your credit is affected is if you dont pay your mortgage and or if the bank approves the short sale and you sell the home at the loss it well then appear on your credit report “Mortgage paid off for less than agreed”.

**Implications for the seller/homeowner**

When the short sale is finalized there are two main concerns on the part of the homeowner. One is the amount of debt that was forgiven…what happens to it? Example: you owe $200,000 and you get the short sale done for $150,000, there is now a $50,000 deficiency. In the past, the lender issued the homeowner a 1099, meaning the homeowner would be taxed on the $50,000 as if it were income. In January the President signed into law the Mortgage Cancelation Debt Relief Act which negates any taxes owed on forgiven debt. [http://www.irs.gov/individuals/article/0,,id=179414,00.html](http://www.irs.gov/individuals/article/0%2C%2Cid%3D179414%2C00.html)

This bill only applies to your primary residence, not second homes and investment properties. The next concern is the remaining deficiency ( the losses the bank takes) could be sought after by the lender in the form of a deficiency judgment. Most banks now put in writing they will waive the defficiency judgement. While the lender has the legal right to go after that money, many factors play a role in determining whether or not the lender pursues it. One is, if it’s made part of the agreed upon short sale that any deficiencies will be waived then you are in the clear. In the event the lender won’t agree to put it in writing that they waive their rights, most lenders won’t pursue the deficiency judgments because the homeowner is insolvent anyway and the short sale wouldn’t have been authorized in the first place.

**How does the homeowner know who to trust when choosing someone to help them?**

We get asked this a lot. We recommend that whomever you work with you ask for references, ask them to show you prrof that they received short sale approvals, and it helps if they have helped hundreds of homeowners like we have, and if they are licensed like the staff that we have.

**Deed in Lieu VS. Foreclosure**

So your buddy’s best friend tells you to just do a deed in lieu rather than a short sale. A deed in lieu of foreclosure is where the homeowner give the deed back to the lender and walks away. No foreclosure right? Not exactly, when a deed in lieu is done your credit report will state; “Deed in Lieu.” In a creditors eyes, it’s no different than a foreclosure, you’ve walked away. Another misconception is that it’s something you can just decide to do. It’s not, the lender has to agree to it. A few reasons they won’t agree is, there’s no equity in the home for the lender to recoup all of their costs. They would rather have you sell it and do a short sale. If there’s more than one mortgage encumbering the property the lender will not accept a deed in lieu. As you can see the deed in lieu really has no real benefits even if the lender does allow it.

[**Benefits of A short Sale**](http://top-short-sale-agent.com/benefits-of-a-short-sale)

**Benefits of A short Sale**

Whether you should do a short sale or let the home go to foreclosure depends on several factors. While for some homeowners, it is easier to throw up your hands and let the bank take your home, that might not be the wisest thing to do.

**Top Short Sale Benefits**

1. **The upside down house debt is erased in most cases.** If you are selling because of a financial hardship, then the upside down house debt will be automatically erased in most cases. If your loan is owned or insured by the following agencies: Fannie Mae, Freddie Mac, FHA, USDA, and/or VA; their policies state that your short sale debt will be erased completely and they put that in writing.

2. **You are eligible to buy another home much sooner compared to a foreclosure.**The most common loan programs, Fannie Mae and FHA, stipulate that you can buy another home under their programs in about 2 to 3 years.

3. **Short Sale is at NO Cost To You.** That is right. A short sale costs you nothing. ALL the selling expenses are paid by your lender. That includes the title insurance, attorney fees, agent commissions, and back taxes.

4. **Your credit suffers much less much less damage.** Many people think that a short sale will be the kiss of death to their credit. The opposite is true. That is the one big advantage of a short sale over a foreclosure. And your credit rebounds much more quickly with a short sale versus foreclosure. The other benefit is that you will have less debt. (More debt hurts your credit score.) You will have a lower debt to income ratio, which could actually boost your credit scores. Within a couple of years or less, your credit will be back to normal or even higher than before you short sold, and now you can even buy another home if you want.

5. **You can often rent a comparable house for less than your former mortgage payment.** I often see homeowners rent larger, nicer homes for less money in the very same areas and neighborhoods they short sold in.

6. **You avoid the humiliation of a foreclosure.** Neighbors know when foreclosure occurs. Not so with a short sale. With short sale, your listing looks like all the other normal seller listings in the neighborhood.

7. **You don’t have to pay rent or make payments during the short sale process.**Most short sales take 3 to 12 months to complete. Most people do not make mortgage payments during the short sale process (but do continue to live the house). You can use that savings of not having to make house payments or rent payments to relieve other financial pressures in your life.

8. **You will likely qualify for some type of cash at closing incentive.** These cash incentives range from $2,000 to as high as $35,000 and are being paid by Lenders, the U.S. Treasury (HAFA), and FHA (HUD) to Short Sale your home (versus be foreclosed on). You can use this money you receive at closing for moving and relocation costs (or to just get back on your financial feet).

**Other Short Sale Benefits**

* You are in control of the sale, not the bank.
* You may sleep better at night knowing who is buying your home.
* You will spare yourself the social stigma of the “F” word, foreclosure.
* Contrary to popular belief, you can be current on your payments and still effect a short sale.
* Your home sale will be handled like any other home sale.

**Affects on Credit After a Short Sale**

A short sale may be considered to be a derogatory mark on your credit even though credit bureaus do not show the word “short sale” on your credit report. It may say “paid in full for less than agreed” or “settled for less,” among other categories. Some clients have reported negative FICO score drops from 50 points to 130 points.

Major point drops are typically due to being in default, meaning you have fallen behind on your payments.

**Affects on Credit After a Foreclosure**

Depending on your credit history and other guidlines, Myfico.com shows 2 examples in which a credit score could fall 105 points to 160 points after a foreclosure. Generally, a foreclosure will remain on your credit report in the tradelines section for 7 years.

**Credit Reports After a Short Sale**

All lenders report short sales differently, with many reporting “paid in full for less than agreed,” and some report the short sale as a charge off. Negative credit, however, stays on your report for 7 years.

**Credit Reports After a Foreclosure**

If a prospective employer runs a credit check on you, your job application may be denied if you have a foreclosure on your record.

**Deficiency Judgments After a Short Sale**

Judgments are often negotiated between the seller and the short sale bank. In some cases, such as California, if the home is your personal residence and was financed through purchase money, there is no deficiency judgment.

**Deficiency Judgments After a Foreclosure**

Banks are generally unwilling to negotiate deficiency judgments with the homeowner after a foreclosure.

**5 Things you didn’t know about a short sale**

1. **Banks will accept less than you** owe on the mortgage which is what a short sale is.
2. Banks will put in writing that **they will not come after you for the losses** refered to as a deficiency judgemeent
3. **Banks will pay all the closing costs in** most cases to include any real estate commissions, transfer taxes, hoa/condo fees, attorney / settlement agent fees, liens for taxes and water bills, and other liens on the home for example credit cards, etc (usually lien holders will have to accept a discount).
4. Banks will often **pay relocation assistance** to sellers
5. You Will typically be able to **buy another home if you wish in 2 – 3 years** from the sale of your short sale home.