



What is a short sale?

This might sound strange, but baseball is similar to real estate, for both offer a *Field of Dreams*.

And Short Sales, like baseball, has many people watching from the stands thinking the game is easy to play. Yet when reviewing the rules one will see it's a bit more complex.

According to the California Association of REALTORS® a Short Sale is a sales transaction in which the seller's mortgage lender agrees to accept a payoff of less than the balance due on the loan. And a Short Sale may or may not involve a property in foreclosure. (Source: www.realtor.org)

Like hitting a 100 mph fast ball, a Short Sale is a difficult transaction. One reason is that it involves as much, if not more, paperwork than an original mortgage application. And that's because one must prove they are broke, without cash flow, including savings, investments, trusts, liquid retirement funds or other finances to tap. (Source: www.realtytimes.com)

***Risk comes from
not knowing
what you are doing.***

~ Warren Buffet

The short sale process

To get the Short Sales process started, the homeowner needs to give their lender the following documents.

A Hardship Letter: Explaining what caused the borrower to get behind.

A Budget Overview: This defines the homeowner's lifestyle, if they can afford the property and if they have assets (stocks, IRA, 401k, bonds) to cure the delinquency. Some banks ask for an accountant's statement, and most interview the borrower to ask specific financial questions.

The budget overview should break the borrower's expenses into the categories of:

- Fixed
- Variable
- Other
- Credit cards
- Loans
- Income and Saving

If self-employed, show the last two bank statements and two years tax returns.

A Listing Agreement: This document outlines the terms of the sales agreement (i.e., the duration, commission, warranties offered, fixtures conveying, etc.)

A Borrower's Affidavit: This will be used as permission to verify details provided by the borrower, and it is also the borrower's assertion that the information is correct.



FHA loans

Application to Participate and Approval to Participate: In the case of FHA loans, it is necessary to complete these two documents. They specify how long the borrower has to sell the property (usually three months), the type of appraiser that can be used, the commissions that will be paid, and the lowest amount that will be accepted. (Source: www.DSNews.com)

Have patience

A Short Sale can take up to six months. And the Short Sale will look at other liens against the home. Property encumbered by a second mortgage will likely kill a Short Sale deal, because the second lender typically won't remove its lien and risk losing its investment position. A private mortgage insurance holder will also want to protect its interests.

FICO watch

It is important to note that when a property is sold thru a Short Sale, the homeowner's FICO score can drop 80-100 points. Yet if a property is lost thru foreclosure the homeowner's FICO score will drop 200-300 points.

Legal tips

In baseball, "Balk" is a great rule designed to protect base runners. And in real estate people can protect themselves with great legal advice.

Robert Brown is the President of the West Los Angeles School of Law, and Rickey Ivie is a Senior Partner of Ivie McNeill & Wyatt. They both agree that the following legal tips found in a www.BusinessWeek.com article offer good insight when considering a Short Sale transaction.



1: In preparing the package, be careful about discrepancies between the seller's income and the income used to obtain the loan. A big gap may indicate mortgage fraud.

2: Watch out for people who try to convince an owner facing foreclosure to sign a quit-claim deed for the property, and then lease the property. In such cases, the former owners will still be liable for the mortgage payments, even though they no longer own the house.

3: Keep in mind that the purchase contract on a Short Sale property is a legally binding agreement once the earnest money has been deposited. Without language in the contract stating that the lender must approve the offer and release all liens on the property, the seller may face a legal problem for failing to execute the contract if the Short Sale is not approved. (Source: www.imwlaw.com)