



## RESIDENTIAL BROKERAGE

### FREQUENTLY ASKED QUESTIONS

**1. What is a short sale?**

A short sale is a sales transaction wherein the seller's lender agrees to accept a payoff less than the balance due on the loan. In addition to absorbing the loss on the loan, the lender in most cases, agrees to pay the costs of the sale.

**2. In the event a lender agrees to a short sale is the remaining debt automatically forgiven?**

Not likely. Due to significant increases in non-performing loans lenders may not be willing to forgive the remaining debt which is often referred to as a "deficiency." In those cases, it is not uncommon for a lender to ask the homeowner to contribute towards the deficiency with a cash contribution or a personal note. In fact, the approval of any short sale will specify the terms under which the lender will agree.

**3. How will the lender communicate the terms of short sale approval?**

Any agreement to approve a short sale must be in writing. An offer of settlement comes in many forms and may include specific conditions. Homeowners are strongly urged to have legal and tax professionals review and approve any agreement prior to signing.

**4. How long does a short sale take?**

It can take anywhere from one to six months or longer once the lender receives a fully negotiated signed offer from both the buyer and seller. The process frequently moves slowly. Currently, many lenders are working to revamp their system to speed up the process.

**5. If a short sale transaction can take up to six months, why do they call it a "short sale"?**

Clearly an oxymoron! It may be because the value is "shorter" (less than) the loan amount. The truth is a short sale has multiple phases that may affect the transaction time frame. Depending on market trends, price positioning, and other factors, it can take up to 180 days or more for a property to sell. Once the negotiations are complete, the short sale proposal is sent to the lender who will evaluate it from a financial perspective. A number of factors must be considered including evaluation of homeowner's eligibility. Understandably this process takes time.

**6. How do I determine whether or not I am eligible for a short sale?**

Each lender has different criteria. Contact your lender for specific details. Be prepared to establish your eligibility by providing supporting documentation such as, W-2 forms, bank statements, tax returns, and other financial documents.

Homeowners should be aware of their options before considering a short sale. Other alternatives include: loan modification, refinance, deed in lieu of foreclosure, foreclosure, and bankruptcy. Non-profit counselors are available to advise homeowners on the advantages and disadvantages of each of the foregoing options. A directory of approved counselors may be obtained at [www.hud.gov](http://www.hud.gov)

**7. Why would a lender agree to a short sale?**

There are various reasons why a lender may agree to a short sale. For example, Senate Bill 1137 (which became effective in July 2008) and other state and federal regulations impose strict requirements on lenders prior to exercising their right to foreclose. Foreclosures take time, and as we all know, time is money.

The expense to the lender is a significant factor. Foreclosure costs may include: internal fees and expenses, eviction, repairs and maintenance of the property, security, as well as Home Owners Association (HOA) dues and utilities. These factors, combined with the federal and state government's push to halt foreclosures, may cause the lender to see a short sale as a preferred alternative to foreclosure.

**8. Is a short sale still an option if foreclosure has already taken place on my home?**

No. Once the lender has completed the foreclosure process, a short sale is no longer an option. For that reason, it is vital that homeowners understand the importance of early communication with the lender. Don't wait until it is too late. Speak to your lender, and advise them of your financial or other difficulties. The fact that you are negotiating the possibility of a short sale does not preclude the lender from proceeding with the foreclosure. Any postponement of foreclosure must be in writing.

In the event you want to retain ownership of your home, you should work with your lender to explore alternatives to foreclosure.

**9. I have a second mortgage on my home. Does this make me ineligible for a short sale?**

In many cases, a short sale can be achieved on properties with multiple loans. Depending on the amount of the loss to the junior lien holder (second trust deed), a short sale may be possible under certain circumstances. Proposals and requests for short sale consideration should be submitted to all lenders at the onset. Lenders who hold second trust deeds are often very rigid and may make demands for additional funds from the homeowner and as well as the buyer in order to mitigate their loss.

**10. Once I have an offer on my home, what happens next?**

Your REALTOR® will assist you in negotiating the best price and terms. Once the negotiations are complete, the offer and all supporting documentation should be packaged and submitted to the lender's loss mitigation department. Follow-up and ongoing communication are significant components of a successful short sale.

**11. Are their tax consequences to a short sale?**

In many cases the answer is yes. A homeowner should consult with their tax advisor to determine tax liability before agreeing to a short sale. For additional information, you may visit [www.irs.gov](http://www.irs.gov) to learn more about taxation of short sales.

**12. Will a short sale affect my credit?**

Yes. Your tax and legal advisors will be able to address your specific situation.

**13. How is Coldwell Banker Residential Brokerage simplifying and streamlining the short sale process?**

Coldwell Banker Residential Brokerage has been working diligently on a multi-faceted program to educate its managers and sales associates regarding the intricacies of the short sale process. In response to the unprecedented challenges today's homeowners face, the company has developed a unique short sale package that allows Coldwell Banker sales associates to deliver comprehensive proposals to lenders, thereby increasing the likelihood of a successful transaction.

***Note: When the amount of the loan and other costs of the sale exceed the current market value of the property, struggling homeowners have a number of alternatives to consider, including loan modification, refinance, deed in lieu of foreclosure, foreclosure, bankruptcy and short sale. This Q & A does not serve as a substitute for tax and legal advice. Any homeowner considering a short sale should consult with legal and tax advisors. A directory of non-profit counselors is available at [www.hud.gov](http://www.hud.gov)***