

What the Heck Is a Short Sale?

Over the last several years a lot of buyers have bought homes, intending to live in them for many years, then something happened - maybe good, maybe bad, but regardless - they don't have a choice. Some owners have to move.

When most homeowners move, they sell their house. Usually, that's not a problem. For some people nowadays, it is a problem.

Because of the easy financing, rampant speculation, flipping, and sometimes fraud, home values skyrocketed most everywhere. That came to an end recently and values plummeted in some areas. Even when values are stable, sometimes there just isn't enough money in the property to pay off the mortgage, then pay all the selling costs and moving costs.

What happens then?

Default, sometimes bankruptcy, and maybe even foreclosure. Or a short sale. A short sale is when the lender agrees to accept a mortgage payoff that doesn't cover the outstanding loan.

Why do lenders accept short sales? Lenders almost always lose money when they foreclose on property. In many cases, they will lose less money through a short sale than they would by foreclosing on the home and selling it as a bank-owned property.

However, there are rules.

The borrower must experience a genuine financial hardship. If this fits, call the lender. Talk to customer service or the collection department and let them know what is going on. That way, knowledge of your hardship is communicated to the lender and becomes a part of their files. Keep your own communication log.

Eventually, you will have to document the hardship and your inability to deal with it financially by disclosing all your assets. Bank statements, stocks, bonds, tax returns, pay stubs -- the lender will want to see everything that may document that you are not hiding assets or income.

The lender will not make a commitment based solely on your hardship. You're also going to have to put your home on the market and sell it.

Once you sell the property, you have to supply additional documentation. When the property is listed, your real estate agent prepares a comparative market analysis. You're going to need that and you will need to supply a copy to the lender, along with your hardship letter, the documents mentioned above, a copy of the purchase agreement, and a "net sheet" showing how much you will net (or lose) from the sale of the home.

It may be that you actually want your real estate agent or some other professional to negotiate with your lender. If so, you need to prepare an authorization letter. That letter includes your name, property address, loan number, your representative's name, the date and your notarized signature. Your agent will know almost all of this and have the proper format.

Then your agent submits it all to your lender and...you wait. Normally, your lender can't make the decision to accept a short sale on their own. If there is mortgage insurance, they get a say-so. Your mortgage has an investor. The investor gets a say-so.

If the deal "makes sense", they believe your hardship is genuine, and you do not own any other property -- you may get a "yes" decision. Your chances go up markedly if you have someone experienced negotiating for you.

Oh yes. If your lender does forgive part of your debt, there is something you should also know. Debt forgiveness is taxable income. The IRS will require you to pay taxes on that income.