



## Short Sales

### The initial homework

The first thing you'll learn in this process is that nothing is guaranteed that the deal will happen until all the documents are signed at settlement. To sum it up, they are a lot of work, many road blocks along the way and will take at least twice as long as a normal transaction. Because short sales are time consuming, they aren't for everyone. You will need the 3 Ps.

**P** PATIENCE  
**P** PERSISTENCE  
**P** PROBLEM SOLVING

To help you gain a better understanding of short sales and what it takes to specialize in this growing area, we have put this guide to short sales and included some information, forms and suggestions to make your job a lot easier. If you need an additional information, you can always contact our office and we will more than happy to help you.

At the same time, this publication is designed to

provide accurate and authoritative information in regard to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal or accounting advice or other expert assistance is required, we recommend the services of a competent professional should be sought.

### What is a Short Sale?

A short sale occurs when the net proceeds from the sale of a home are not enough to cover the sellers' mortgage obligations and closing costs and the seller is unable to cover the difference. Most of the short sales at this time are owners who bought at the top of the market or who took out large amounts of equity with a refinance and who need to sell because of divorce, lost of a job, sickness or other factors that put them upside down, owing more than it is currently worth when closing costs are factored in.

Loosing your home is the most devastating and emotional thing that you can experience. For this reason you need to be patient and at the same time must keep the sellers focused on getting the forms and paperwork completed.

It is very much like a traditional listing, except for the "sense of urgency" caused by deadlines and a sense of doom by the seller.

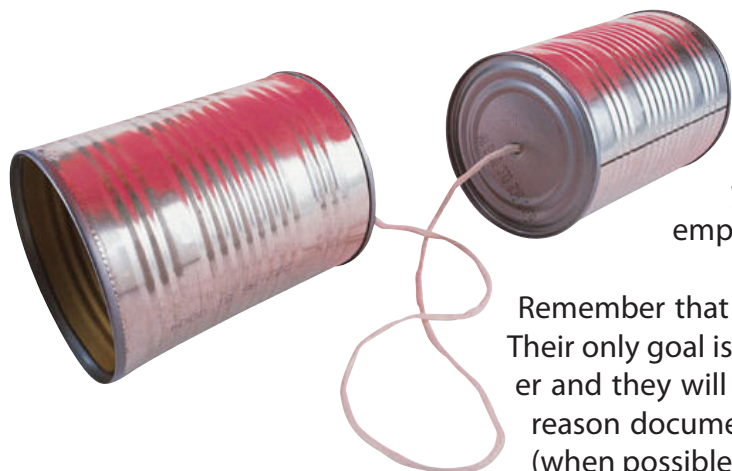
Here are some preliminary work you can do before the listing or at the initial meeting.

- Generate a CMA for the property
- Bring the following forms to your first meeting
  - Log information form
  - The authorization to release information
  - Financial Statement form
  - Limited Power of Attorney (for limited occasions)
  - Pre-foreclosure options form

Remember to ask the seller(s):

- Did they disclose ALL liens and encumbrances?
- Are there late payments?
- Any notice of default?
- Any repairs to be done?
- Any late HOA fees?
- Any Private Money or unrecorded Deed of Trust?
- Any bankruptcy?

# Communication Log



Lenders require many things from the sellers and what they will tell you one day may change when you speak with someone else the following day. For this reason is very important you document your conversations, telephone numbers, names of employees of the lender that are negotiating the sale.

Remember that they ARE NOT there for the benefit of your client. Their only goal is to collect as much money as possible for the lender and they will use whatever means necessary to collect. For this reason document all your conversations and make sure you deal (when possible) with one person.

## First Loan

Name of the Bank : \_\_\_\_\_ Phone No.: \_\_\_\_\_

Loan No. \_\_\_\_\_ SSN: \_\_\_\_\_ DOB: \_\_\_\_\_

Contact Person: \_\_\_\_\_ Ext.: \_\_\_\_\_ Dept.: \_\_\_\_\_

Date contacted: \_\_\_\_\_

Notes:

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## Second Loan

Name of the Bank : \_\_\_\_\_ Phone No.: \_\_\_\_\_

Loan No. \_\_\_\_\_ SSN: \_\_\_\_\_ DOB: \_\_\_\_\_

Contact Person: \_\_\_\_\_ Ext.: \_\_\_\_\_ Dept.: \_\_\_\_\_

Date contacted: \_\_\_\_\_

Notes:

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Approval date: \_\_\_\_\_ By: \_\_\_\_\_

# Authorization to Release Loan Information

Authorization dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

Borrower(s): \_\_\_\_\_

Loan No.: \_\_\_\_\_

Property Address: \_\_\_\_\_  
City State Zip

To: \_\_\_\_\_  
Lender's name  
\_\_\_\_\_  
Address City State Zip

I/We the undersigned hereby authorize you to release information regarding the above-referenced loan to \_\_\_\_\_ and/or their agents/assigns. This form may be duplicated, copied, sent via facsimile transmission or by e-mail. This authorization is a continuation authorization for said persons to receive information about my loan, including duplicates of any notice sent to me regarding my loan.

\_\_\_\_\_  
Signature DOB: \_\_\_\_\_

SNN: \_\_\_\_\_

\_\_\_\_\_  
Signature DOB: \_\_\_\_\_

SNN: \_\_\_\_\_

\_\_\_\_\_  
Signature DOB: \_\_\_\_\_

SNN: \_\_\_\_\_

# Personal Financial Statement

## This is Only a Sample Form

Getting a lender to approve a short sale is primarily a questions of economics. Lenders are fine with doing short sales as long as there is a genuine circumstance in the default, but a seller needs to be able to show true financial hardship. The purpose of this "financial statement" is to help you collect all the pertinent information you will need to submit your package to the lender.

Your mortgage lender will have their own "Financial Statement Form" and you MUST use theirs for the final package before they will consider a short sale request.

### Total Monthly Income

	Wages	Social Security	Pensions	Rent/other income
Mortgagor				
Co-mortgagor				

No. of dependents: \_\_\_\_\_ How long on current job? \_\_\_\_\_ Co-mortgagor: \_\_\_\_\_

### Monthly Expenses

1st Mortgage	\$	Food	\$
2nd Mortgage	\$	Gas/Electric	\$
Property taxes	\$	Water/Sewer	\$
Homeowner's Insurance	\$	Trash	\$
HOA/Condo Fees	\$	Phone/Cell Phones	\$
Credit Cards	\$	Cable/Satellite TV	\$
Installment loan payments	\$	Internet	\$
Transportation/gas/repairs	\$	Life/health Insurance	\$
No. of vehicles	\$	Child Support/Alimony	\$
Auto payments	\$	Medical/Dental Expenses	\$
Auto Insurance	\$	Charitable Contributions	\$
Day Care/Child Care	\$	Tuition	\$
Other	\$	Other	\$

### Assets and Investments

Balances	Checking	Savings	Stocks/bonds	Retirement	Others
Mortgagor					
Co-mortgagor					

# Pre-Foreclosure Options Form

## What are the options besides a short sale?

Thanks to programs such as those proposed by Fannie Mae and Freddie Mac to assist subprime borrowers, many lenders are more willing to offer loan modification options. This options can help you get through this difficult time. Here are some of the programs a lender might suggest for avoiding mortgage foreclosure:

### 1. Reinstatement Program

Reinstatement program is when you are behind in your payments but agree to a lump sum amount on a specific date to bring your monthly mortgage payments current.

### 2. Forbearance Mortgage

If your lender agrees with forbearance mortgage it means you can delay your monthly mortgage payments for a short period of time. A forbearance mortgage is usually combined with other programs that bring your monthly mortgage payments current after a negotiated period of time. As for the interest, it continues to accumulate on the mortgage forbearance and is added to the remaining balance of the loan.

### 3. Mortgage Repayment Plan

A lender will sometimes suggest a mortgage repayment plan if you are behind in your payments but can start making payments again now. This slowly lets you catch up on your monthly mortgage payments. You simply add an additional portion of the past due amount to monthly mortgage payments until your balance is current. In this situation, the monthly mortgage payment may be deferred from one to six months depending on the lender. The disadvantage to mortgage forbearance payment plans lies in the continued accrual of interest on the total mortgage principal balance. However, the advantage of deferred mortgage payments is the capacity to allow you to save money, over a few months, to begin making full mortgage payments again.

### 4. Mortgage Modification

A modification is a permanent change in one or more of the terms of a mortgagor's loan. The lender will usually only suggest a mortgage modification if you can make current monthly mortgage payments now, but can't come up with the past due amount. They can either add the past due amount into existing loan or extend the length of your mortgage loan. A lender may also suggest you refinance to a different loan program to lower your monthly mortgage payment to a more affordable amount. By applying for mortgage modification, the amount of the monthly principal payment may be reduced. However the mortgage loan terms may be extended so as to allow for continued and full prepayment of mortgage principal balance. This option does result in additional interest paid over the life of the home mortgage. However, you will retain ownership.

### 5. Deed in Lieu of foreclosure

If you have equity in your property and meet the bank's criteria, you may be able to give the bank your property to avoid a foreclosure. This is one of the least preferred options from the lender viewpoint.

### 6. Refinance your loan

There are lenders that will work with people in foreclosure when the delinquency is less than 90 days or you have enough equity and sufficient income.

Any Bank, USA  
1234 Main Street Ave  
Any Town, MD 12345  
Fax: 301-555-1212

Date

RE: Hardship Letter - Short Sale for \_\_\_\_\_ address  
Loan No.: \_\_\_\_\_

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 sought 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 put my home up for sale by owner in \_\_\_\_\_, but 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. Over the next three months I lowered the price three times but still had no takers. I am now working with a real estate agent and I believe he/she will be able to help me sell quickly.

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 \$\_\_\_\_\_ 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 like to give you notice of my intention and 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 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 agent or me personally.

Sincerely,

Home Owner Name  
Address and Contact Information

# Short Sale Package for Lender

These are some of the recommendations we suggest you to check before you send your package to the lender:

- Hardship Letter (well thought out)
- Seller's authorization to release information (if you have sent this, send it again. Trust me in this one)
- Financial Statement with proofs
  - 2 years w2's
  - 2 months pay stubs
  - 2 months bank statements
  - Supporting Documents for hardship letter (i.e., medical statements, disability statements)
- A copy of Sales Contract signed by both the sellers and buyers (if you have one)
- Repairs Estimate for the property (nowadays they want a contractor's estimate; it adds credibility)
- CMA or comps for the property
- Listing agreement, including Realtor commissions for listing and selling agent.
- Net sheet HUD-1 (call our office and we will furnished a draft HUD-1 with all this information)

Additional information that may be asked by the lender:

- The first mortgage holder may ask for a payoff amount from a 2nd if applicable.
- The second mortgage holder may ask for a payoff amount for the 1st.
- Most lenders will want to get a BPO (Broker's Price Opinion) before you and seller set a list price.

## Tips

Instead of stating a specific percentage of compensation for buyers' representatives when posting the listing in MLS, offer a split (50/50, 60/40, etc) rather than using points. This way if the lender pressures for a lower commission, you can divide the fee, rather than give a stated percentage to the buyer's agent.

Never assume that the debt that your client owes a lender is forgiven unless you have the details of the release of that debt in writing stating that no further action to collect the debt will be taken. So request it from the lender.

Do not forget to disclose the need for lender approval to the buyers and use a disclosure form or rider to include a provision allowing either party to cancel a short sale contract within a set period of time if the seller hasn't gotten the deal approved. 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 lenders must approve the offer and release all liens on the property, the seller may face problem for failing to execute or fulfill the contract if the short sale is not approved.

Always make a copy (or sign two originals) of the package you send to lenders just in case the package is "lost" or the lender says they never received the first package. Keep copies of Fedex and U.S.P.S. receipts or proofs.