

How To Do A Short Sale:

Why would a lender accept a short sale?

For owners who can no longer afford to keep mortgage payments current, there are alternatives to bankruptcy or foreclosure proceedings. One of those options is called a short sale.

When lenders agree to do a short sale in real estate, it means the lender is accepting less than the total amount due. Not all lenders will accept short sales or discounted payoffs, especially if it would make more financial sense to foreclose; moreover, not all sellers nor all properties qualify for short sales.

If you are considering a short sale, there could be drawbacks. For your protection:

- Obtain legal advice from a real estate lawyer
- Call an accountant to discuss short sale tax ramifications

Although all lenders have varying requirements and may demand that a borrower submit a wide array of documentation, the following steps will give you a pretty good idea of what to expect.

Call the Lender

You may need to make multiple phone calls before you find the person responsible for handling short sales. Ask for the supervisor's name and the name of the individual capable of making a decision.

Submit Letter of Authorization

Lenders typically do not want to disclose any of your personal information without written authorization to do so. If you are working with a real estate agent, closing agent, or title company, you will receive better cooperation if you write a letter to the lender giving the lender permission to talk with those specific interested parties about your loan. The letter should include the following:

- Property Address
- Loan Reference Number
- Your Name
- The Date
- Your Agent's Name & Contact Information

Estimated Closing Statement

This shows the sales price you expect to receive and all the costs of sale, unpaid loan balances, outstanding payments due and late fees, including real estate commissions, if any. Your real estate agent or title company should be able to prepare this for you, if you do not know how to calculate any of these fees. If the bottom line shows cash to the seller, you will probably not need a short sale.

Hardship Letter

This statement of facts describes your financial hardship and makes a plea to the lender to accept less than full payment. Examples of hardship are: Unemployment, divorce, medical emergency/sudden illness, bankruptcy, death, or other unforeseen circumstances that caused the financial hardship.

Proof of Income and Assets

It is best to be truthful and honest about your financial situation and disclose assets. Lenders will want to know if you have savings accounts, money market accounts, stocks or bonds, negotiable instruments, cash or other real estate or anything of tangible value. Lenders may require assurance that the debtor cannot pay back any of the debt that it is forgiving.

Copies of Bank Statements

If your bank statements reflect unaccountable deposits, large cash withdrawals or an unusual number of checks, it's probably a good idea to explain each of those line items to the lender. In addition, the lender might want you to account for each and every deposit so it can determine whether deposits will continue.

Comparative Market Analysis

Sometimes markets decline and property values fall. If this is part of the reason that you cannot sell your home for enough to pay off the lender, this fact should be substantiated for the lender through a comparative market analysis. Your real estate agent can prepare this for you, which will show prices of similar homes:

- Active on the market
- Pending sales
- Sales from the past six months

Purchase Agreement & Listing Agreement

When you reach an agreement to sell with a prospective purchaser, the lender will want a copy of the offer, along with a copy of your listing agreement. Be prepared for the lender to re-negotiate commissions and to refuse to pay for certain items such as home protection plans or termite inspections.

This handout provided by the city of Phoenix Neighborhood Services Department is intended to foster communication between the owner and real estate professionals. This handout should not be regarded as legal advice or considered a replacement for the responsibilities to be familiar with the law.