



RE/MAX Valley Real Estate

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Questions and Answers about the Simplified Short-Sale Process

What is a short sale?

In a short sale, a lender agrees to let a homeowner facing financial hardship sell a home for less than the mortgage owed. A short sale is an attractive alternative to foreclosure, typically not pursued until after other efforts to keep the owner in the home have been exhausted. There are potential tax consequences that should be discussed with a tax professional.

Why is a short sale better than foreclosure?

Typically, a short sale is less damaging to the borrower's credit. The former owner can qualify for a mortgage backed by Fannie Mae or Freddie Mac to buy another home in as few as two years - far sooner than if there had been a foreclosure. Short sales also help protect other property values in the community by keeping the home out of potential disrepair.

Why has the U.S. Treasury issued new short-sale guidelines?

Because of the challenges many homeowners have faced in their attempts at short sales, RE/MAX International has worked closely with major lenders, the U.S. Treasury and other federal agencies to streamline and standardize the process. The new guidelines are in response to this advocacy by RE/MAX and others in the industry. Short sales are seen as a critical component in stemming the increasing number of foreclosures and stabilizing the housing market. More than 75 percent of the mortgages in the United States are covered by the recently streamlined short-sale guidelines issued by the U.S. Treasury Department.

What's been improved in the short-sale process?

Under the Treasury's Foreclosure Alternatives Program, mortgage servicers have 10 business days to respond to a short-sale offer. In the past, a lack of timely response has been one of the main reasons for delayed or derailed short sales. Also, paperwork and documentation are now standardized. Previously, such procedures varied widely between lenders. Various deadlines in the short-sale process also have been standardized.

What's improved for the homeowner?

Under the Treasury program, a successful short sale will release the borrower fully from the primary mortgage obligation. This lender will not pursue a deficiency judgment. Additionally, homeowners who complete short sales are eligible to receive \$1,500 to offset the expense of moving from the home.

What's the incentive for a primary lender to approve a short sale?

Using program guidelines, lenders will determine a minimum acceptable offer for the property. Typically a lender's loss on a short sale is less than the loss it faces should the property go into foreclosure. Through the Treasury program, mortgage servicers receive \$1,000 for every short sale closed.

How does the program work?

If the owner of a principal residence does not qualify for refinancing and has exhausted [Making Home Affordable](#) loan-modification options – or if they make a direct short-sale request to a lender in the program - the lender determines if a short sale is possible. If it is, the borrower is given at least 120 days (up to a year, depending on local market conditions) to sell the home using a real estate agent experienced in the local market. Meanwhile, the foreclosure process can move forward, but it cannot be finalized until after the marketing period has expired. During the marketing period, lenders must respond to a fully completed "request for approval of a short sale offer" within 10 business days.

What's the best way to find a real estate agent to handle a short sale?

RE/MAX Valley Real Estate has been training its agents to help homeowners avoid foreclosure by offering courses on short sales. If you've fallen behind in your mortgage payments or received a pre-foreclosure letter from your lender, a RE/MAX Valley Associate can help.

Does the borrower continue to make primary loan payments during the short-sale marketing period?

Yes, in some cases. The amount is determined by the loan servicer in accordance with terms of the Treasury guidelines. If there is a payment, it cannot exceed 31 percent of the borrower's gross monthly income.

What if there's a second mortgage, home equity line of credit or other junior lien?

The borrower is responsible for either paying off such debt or negotiating release from the debt and any potential for deficiency judgment. An experienced RE/MAX short-sale expert can help you with this process. The Treasury program provides some financial incentive for junior lenders and investors who hold such loans to participate in the short sale and release the liens.

Are there restrictions on who can make a short sale offer?

Yes. Among the program's many restrictions are requirements that the property not be sold to a relative and not be occupied or repurchased by the former owner. The buyer may not receive any funds from the transaction and cannot sell the property for at least 90 days after closing.

Is a short sale the only alternative to imminent foreclosure?

If a short sale is not successful, the lender can opt to take a "deed in lieu of foreclosure." In this process, the homeowner gives clear title to the property to the lender. Under terms of the Treasury program, the borrower is released from the remaining mortgage obligation and can still receive the \$1,500 for relocation expenses. The borrower then has 30 days to vacate the property. In some cases, it's possible to pursue a "deed in lieu of foreclosure" without first pursuing a short sale.

Is there an expiration date for the Treasury program?

Borrowers have until Dec. 31, 2012, to enter into a short-sale or deed-in-lieu agreement with their lender under terms of the Treasury program.

Are short sales still possible for borrowers and lenders not covered by the Making Home Affordable Program?

Yes. Short sales remain possible for borrowers with mortgages not covered by the Treasury program's incentives and guidelines. RE/MAX agents with short-sale expertise can help such homeowners pursue a short sale with their mortgage servicer or investigate other possible options.

Note: This article provides general information only. Information is not provided as advice for a specific matter. For advice on a specific matter, consult your attorney or CPA.