

FREQUENTLY ASKED QUESTIONS SHORT SALES: THE LONG AND SHORT OF IT

What is a short sale?

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

How long does the average short sale take?

It can take anywhere from 28 days to six months or longer once the lender receives a 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 procedure.

If a short sale transaction can take up to six months, why do they call it a “short sale”?

Clearly an oxymoron! Or look at it this way: the value is “shorter” 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. In addition, the homeowner must establish eligibility for the short sale by providing supporting documentation such as, W-2 forms, bank statements, tax returns, and other financial documents. Understandably, this process takes time!

How do I determine if I’m eligible for a short sale?

Homeowners ought to 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 counselors may be obtained at www.hud.gov

Why would a lender agree to a short sale?

There are various reasons why a lender may agree to a short sale. Foreclosure takes 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, make it easy to see why a short sale may be in the lender’s best interest.

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 let him or her know that you are having financial or other difficulties. If you want to retain ownership of your home, you may be able to work with your lender to explore alternatives to foreclosure.

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.

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-ups and ongoing communications are significant components of a successful short sale.

Will I have to pay capital gains taxes if I sell a property as a short sale?

A short sale has no bearing on the calculation of capital gains taxes. However, there are other tax liabilities that must be evaluated. Seek the advice of tax and legal advisors before agreeing to a short sale. For additional information, you may visit www.irs.org to learn more about taxation of short sales.

Will a short sale affect my credit?

Yes. Your tax advisor will be able to address your specific situation.

I would like to buy a short sale. Where do I start?

Choose a REALTOR® who has the ability to recognize a short sale property and who possesses the ability to work through any difficulties that may arise during the buying process. Be prepared for a bumpy road. If your REALTOR® is knowledgeable, he or she will help you manage your expectations.

When buying a short sale, do I have to pay all of the escrow fees?

The allocation of costs is a negotiable item in any real estate transaction. Typically, the buyer and seller each pay their own fees. In short sales, lenders may request that certain fees be paid by the buyer, as a condition of the lender's approval. Some of these costs may include: funds owed to junior lien holders, closing costs, delinquent property taxes, and Home Owners Association Dues. Expect the unexpected and work with a REALTOR® who is familiar with short sales and is able to walk you through the process prior to preparing an offer to purchase.

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. 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 and swift 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. 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