



What is a Short Sale ... Questions and Answers!

In the world of Real Estate, a short sale refers to the sale of real property for an amount less than the amount owed on the property. In the short sale scenario, the bank agrees to accept less than the full balance due on the debt, and usually 'forgives' all or a large portion of the difference.

Q - What is Negative Equity?

A - Also known as being "upside down" negative equity is the difference between the value of an asset and the outstanding portion of the loan taken out to pay for the asset, when the latter exceeds the former. For example, if your car is worth \$10,000 and you owe \$18,000 on it, you would have a negative equity of \$8,000. Negative equity can result from a decline in the value of an asset after it is purchased.

Some areas decline in value. In other areas, prices may remain flat so that the properties in that area do not appreciate. If a seller wants to sell within 2-3 years of purchasing their property, they could potentially face a situation where they have negative equity.

Q - How will the Short Sale affect my credit?

A - Banks have the option of submitting the short sale to the credit bureau as "Paid in Full" or "Settled for less than full balance". As far as your credit score is concerned, there is no evidence to support that a short sale will lower your credit score. Some have the idea that this is like a bankruptcy or a foreclosure. That is not true! In a short sale, the lender is simply allowing you to pay less than you owe!

If you are currently behind on your mortgage or facing foreclosure, the short sale will actually help your credit! Because once you are approved for the short sale, all collection activity will STOP and you will avoid foreclosure!

Q - Who benefits from the Short Sale?

A - Short sales are a win-win situation. Lenders, Mortgagees and Realtors all benefit from the successful short sale. The Lender gets the majority of its money back, Mortgagees get the relief they need and are able to sell their property and avoid foreclosure, and Realtors can facilitate the transaction and receive compensation (commission) from the sale of the property.

Q - Why would banks forgive the difference?

A - To mitigate their losses, banks often accept a settlement of less than what is owed on the property. When faced with the option of getting the property 'back' through foreclosure, a short sale is often much wiser business decision for the bank.

Q - Why does my property have negative equity?

A - Here are a few common reasons:

- * You bought at the height of the market and the market has now declined or you paid more than the property was worth.
- * The area has become less desirable for any number of reasons, so property values have declined.
- * You purchased the home with little or no money down and want to sell within a few years of purchase... and the property value has not increased during that time.
- * You refinanced the home (with a high appraisal value) and now you have little or no equity.
- * You bought in a brand new subdivision or recently developed area that has not been fully developed or has not appreciated (or has depreciated in value)
- * The market is soft because there are too many existing homes on the market (buyer's market)

Q - What if I owe what my home is worth?

A - Even if you owe exactly what your home is worth, you may still need to do a short sale in order to pay for the costs of the sale (Realtor fees, Title Policy and other seller closing costs).

Q - Why not just let the lender foreclose?

A - Even if the lender sells the property through foreclosure this may NOT remove your obligation to repay the remaining balance. The financial obligation may not be wiped away!

Q - How long does a short sale take?

A - Short sale approval can take 30-45 days.

Q - What if my home is already in foreclosure?

A - Your foreclosure sale will usually be suspended during the short sale process.

Q - Are there any tax consequences to a short sale?

A - Unfortunately, the amount of debt forgiven by the Lender would be considered taxable income to the seller for income tax purposes. However, depending on your situation, a short sale may still be preferable to losing the property in foreclosure.

TIP:

If you are upside down, and need to sell your home... Time is important. Work with a professional realtor that specializes with Short Sales and is familiar with the timelines and laws of your state.

Trustee's Timeline

This timeline is intended only for the general interest of those processing foreclosure. Please consult your attorney for assistance in its use. References are to various sections of the California Civil Code.

Record Notice of Default

Day 1 _____

Mail Notice of Default- Trustors & Requests For Notice – 2924b (b)(1) and 2924b(e)

Within 10 business days _____

Publish Notice of Default –when necessary -2924 (b)(d)

Within 10 business days _____

Mail Notice of Default to Jr. Lienholders- 2924b(c)(1)(2) and 2924b(e)

Within 1 month _____

Set Sale Date -2924 and 2924f(b)

After 3 months _____

Send Notice of Sale to IRS, as required in cc §2924b(c)(4) – IRS regs. (Re: IRS lien(s))

25 days before sale date _____

Publish Notice of Sale- 2924f(b)

20 days before sale date _____

Post Notice of Sale -2924f(b) on property and in public place

20 days before sale date _____

Mail Notice of Sale- 2924(b)(c)(3) 2924(e)- **INCLUDES** any State taxing agency, including office of the controller if Notice of lien for postponed property taxes has been recorded.

20 days before sale date _____

Request for directions to property sent to beneficiary- 2924f(b) (Vacant Property)

Within 10 days from 1st publication notice of sale _____

Record Notice of Sale-2924f(b) with APN No.

20 days before sale date _____

Trustee cannot sell for 7 days after expiration of court order, unless the order otherwise provides- 2924g(d) (TRO or BK)

10 days before sale date _____

Right to reinstate ends – 2924c(e)

5 business days before sale date _____

SOLD!! (2924g and 22924h)

Sale date _____

120 days IRS redemption period only if IRS lien recorded 30 days prior to sale

120 days _____