

My Short Sale Guru's

*Guide to Healing and Financial Recovery for
Discouraged Homeowners*

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***"When one door of happiness closes,
another opens; but often we look so long at
the closed door that we do not see
the one which has been
opened for us."***

- Helen Keller

CHAPTER ONE

QUESTIONS THAT STOP US FROM FINANCIAL HEALING

This is a fundamental human issue. Our home touches the most personal part of ourselves. Being faced with losing your home is an extremely difficult and personal process. It strikes at the heart of what we hold dear- our money, our family, our self-worth, and our security. Our very foundation.

The first step in a successful short sale is working through the emotional and mental issues of dealing with the loss of your home and how that impacts the core part of your financial life.

Many questions need to be answered because without these answers, you and so many others are fearful of making a wrong decision thus making the situation worse.

Let us discuss your questions and find the right solution for you so that you can get past the emotional and mental resistance. Then you can solve the situation and move forward to your "financial renewal".

As you read through the list, you may recognize some or all of these questions. These are questions that both my clients and myself have used to hold ourselves in continued financial bondage for anywhere from three, six, or even twelve months before looking at the problem.

Waiting only creates more anxiety and stress, and in the end, the problem still remains. It sits patiently waiting for you.

I do not blame or intend to scare you. There is no benefit to blaming and regretting what has past. Now is the

time to move on and create your future. Let's identify the questions and or reasons that keep us stuck in financial gridlock.

I'm embarrassed to admit that I have made a mistake or failed.

In today's economy many individuals are working double time in an effort to take care of their families. Still there are others who are out of work and have been for a long time. Many of these individuals have nearly given up the hope of finding a new job.

This is especially true for single parents, the moms and dads, who are supposed to be super heroes and manage balancing kids, work, home, and family- life.

So what do those super heroes do when things get rough? They beat up on themselves because they weren't able to do it all, because they weren't perfect and what they thought was such a great opportunity seems to have turned out so sour.

So, in order to avoid this embarrassment we, the super heroes, do nothing about what is the underlying situation that is causing the bumps in the road. The over-leveraged property is kept a secret and the weight of the secret becomes harder and harder to bear.

This embarrassment is unfounded and unfair. We must remember; we made the best decisions we could at that time, and self-criticism is a waste of energy that only delays all the financial recovery that is available to us.

When someone buys a home, more than likely he or she buys the property at market value. You mostly likely purchased your home the same way. Your realtor showed you the prices for the neighborhood and you paid a similar price. Market Value is the standard way property is bought and sold. This basic principal is used by everyone from Donald Trump to the local street sweeper when looking to purchase property.



Real estate is an investment and like all investments subject to devaluing.

Regardless of the amount of money involved, whether it is a \$20,000 or a \$2.5 million dollar house, most borrowers who have mortgaged their properties take the same risks.

The fact that a property may lose value and that it could become worth less than the mortgage owed is the risk of real estate, mortgages, and investment. Real estate is an investment. All investments carry a certain amount of risk and are subject to devaluation. You are not alone in this market.

Most people do not set out to make bad investment decisions. You considered the variables (income, family needs, and value) and made a choice.

Now is the time to let go of the embarrassment and solve the issues at hand. The solution is to sell one's home and begin a fresh start.

When done with the help of your realtor, banker, and a plan, this is an admirable move, worthy of respect from almost anyone, especially from yourself, the homeowner.

What will my family, friends and co-workers think if I'm in foreclosure or debit collectors start calling?

Clients often ask themselves, "What will others think"? Our Ego helps us survive challenging times. However, that same ego can cause us to make bad financial choices by allowing us to ignore the truth of a situation for fear of losing a certain social or financial status. That is not a good option when facing thirty years of mortgage payments on a bad home investment.

Losing your financial future is not worth what others think of you. Do not focus on what is gone. Instead, search for answers and make a plan. Let's look for answers and demonstrate you are capable of resolving any situation that may arise. That is an action worthy of respect and one you can take pride in accomplishing.



No amount of ego justifies financing debt.

In 2007, I found myself with seven properties upside down, over a million dollars in debt, and absolutely no one to turn

to for help. Originally, I found a lot of self-worth in telling people I owned seven properties. So, it took a lot to swallow my pride and let go. I told myself that my ego was not enough to hold a million dollars in debt; this was a debt that was pulling me further and further away from my long term goals of financial stability. Every payment I sent did not make the problem better but worse for me financially. I was throwing good money after lost money.



You are stronger to resolve the debt in a short sale than continue to finance it.

Most people, who find themselves in a similar crisis, owe \$100,000 or more to the bank than the home is worth in market value. No amount of ego justifies financing unproductive debt.

It is also important to remember that traditionally the first ten years of your mortgage payments go primarily to the interest on the loan. So in that time period, you are basically just renting your house.

If your home is not worth the mortgage principal, every payment you make is throwing money away. It is not changing the amount you owe on your home, and you will not earn a return on your investment. You are stronger to resolve the debt in a short sale than continue to finance it.

Let the home and the attached debt go. There will be other properties. There will be other homes. This decision is one that your friends and family will respect.

What if I end up homeless?

Homelessness is a scary concept and means different things to different people. For some it is giving up a home they have lived in their whole lives, or it may mean moving in with relatives; and others may not be able to begin to imagine where they could possibly go next.

There are a lot of reasons people need to short sale their homes and many of them add to the difficulty of dealing with an overleveraged property. For some the emotional issues of death, illness, or relationship changes make dealing with the fear of losing your home unbearable. For others, losing a job can be emotionally devastating and when money issues come crashing down on top of you afterwards, it may feel as if there is no way out.

There is no need to fear homelessness. Your decision to act and create a financial plan will enable you to avoid homelessness. There are bank and government programs out there to help you relocate.

A short sale client of mine recently found out that her husband had cancer. At the same time, she also found out that she was going to lose her job. In their situation, they could not afford the mortgage or health insurance. Even with the loss of her job and his illness, one of their biggest fears was that they would end up homeless. However, while working with this couple, I was able to help them apply to a program called Home Affordable Foreclosure Alternatives (HAFA). This program is designed to assist

people who are delinquent in mortgage payments to help them relocate.

I also coordinated with the bank to work around his treatment schedules and possibly allow them to stay in the house, thus renting from the new owner; this will considerably reduce their costs. Some lenders will allow this kind of agreement called, a "lease-back", as long as the person who is buying the house is not related to the previous homeowner.



Begin planning your move when you start the short sale process.

HAFAs, which I will discuss in detail later in Chapter Three, works with primary Homeowners to give up to \$3,000 to sellers. One of my successful sellers received bank incentives plus HAFAs in the amount of \$33,000! Options are available.

Seek help from your realtor or local short sale specialist for relocation options, if you can't find a solution on your own. You should begin planning your move when you start the short sale process so that you can save money, apply for relocation incentives, and look for your new home!! Be excited about the new chance and fresh start.

I was raised to pay my bills.



There is a difference between being honorable and being financially irresponsible.

Our morals and upbringing guide us through life. They are crucial tools that we use to assess situations and decide how we will act. However, there is a difference between being honorable and being financially irresponsible.

I once worked with a woman whom I advised against cashing in her retirement just to be able to continue making her mortgage payments. She was in her sixties with her earning-years behind her. She told me she tried not to pay her mortgage payments, but on the 15th day of the month, the bank would start calling for the payments and not paying went against her upbringing and morals.

In the end, she could not stand the collection calls, so she cashed in her retirement and continued paying her mortgage until her retirement ran out. Understand that retirement accounts are typically immune from creditors. So by cashing in her retirement, she gave money to the bank they never could have taken legally.

Initially, the bank did not approve the short sale with waiver of deficiency because the loan was current and she did not have an apparent hardship to warrant forgiveness. However, unavoidably in the end, she ran out of her retirement funds and could not make any more payments. The loan went into default. The bank may have approved the deficiency waiver at that point, because she had demonstrated a hardship through nonpayment, but by then she had become completely discouraged that she gave up on the short sale. So now, she has no savings and she lost the house anyway.

The money she spent was lost on a home she did not intend on keeping; this was because she was raised to believe she should pay her bills at any cost. It would have been much better for her to sell the house and then spend her retirement funds to buy a condominium for herself without a mortgage.



I encourage you to pay your bills wisely.

The advice to take from this woman's story is think long term before sinking savings into a mortgage on a house you

are selling or can't keep so there won't be any financial return for your sacrifice.

I understand why many people feel it is so important to pay what they owe in debt, but it should not be to our peril and our financial destruction. I encourage you to pay your bills wisely. Especially if you are dealing with job loss, illness or other financial issues in addition to the escalating home costs.

What will it do to my credit rating?

A good credit rating is critical. A good credit rating saves us money on interest payments with credit cards, car loans, and home loans. So keeping credit healthy is an important goal.

Credit is damaged in two ways. First, credit is damaged by the number of months delinquent on accounts. Any delinquent accounts that you have with creditors show on your credit report and reduce your score. So when your mortgage payment goes past thirty days due, the bank will report that to the credit bureaus and that will reduce your score. Each additional delinquent month adds to the negative reporting to the credit bureaus.



One must contemplate the value of a credit rating in comparison to personal circumstances.

One case that comes to mind, we were able to process an entire short sale and the seller did not go past sixty days delinquent in his mortgage payments. Luckily, this caused very little credit damage. That was his goal.

Take that scenario versus a homeowner who went twelve months delinquent in order to save money to move his family. This second scenario was much more damaging to the individual's credit rating but was done as part of his relocation plan.

Decide which option is right for you and the amount of time you will need to create the resources to reach your goal.



Your credit rating should not stop you from resolving your debt.

As the one responsible for your financial choices, decide the value of a credit rating in comparison to personal circumstances. By planning a path out of your overleveraged home, any damage to your credit rating has been weighed against the needs of your financial future and therefore has a value.

Start the short sale process the moment you know you will not be able to make the payments. If that time has already passed, start the short sale process now. Don't damage your credit rating without a plan.

The second way your credit is affected is how the bank reports the mortgage loan to the credit bureaus when the account is closed.

After your short sale closes, in most cases, your account will show on your credit report as: *account closed, settled for less than full value*. If you continue to pay your other bills, your credit should not be severely damaged for the long term. Professional estimates put your ability to purchase a new home about two to three years post short

sale, if you have income and have consistently made other debt payments. Again, I provide more detail on this later, but do not let fear of negative credit reporting stop you from considering a short sale.

Recently, a client received a satisfaction of mortgage when his loan was paid with the short sale proceeds. The satisfaction read that he had paid his loan in full! Originally, the bank approved the short sale but did not agree to waive the unpaid loan amount, he expected to receive a property release only. Therefore, the complete satisfaction of what he owed was a pleasant surprise. Additionally, since the satisfaction read that he had paid the loan in full, he hired a credit repair company to review his credit report, so it reflected the same language as the satisfaction. This language is less damaging to his credit rating than "*account closed and settled for less than full value*" which was the language he expected and would have reduced his credit score more.

Don't let your credit rating stop you from resolving your debt. My experience tells us, you never know if the bank will decide to waive your deficiency debt even after the sale.

I spent so much on the house, how can I just let it go?

Stubbornly paying on a property that is no longer a viable investment is not wise. Just because you have already invested a large amount of money, does not legitimize your actions.



Do not be a gambler.

I relate this type of reasoning to a gambler. He bets more money in an effort to win back what he has already lost. This mindset can be a vicious cycle that often ends in self-defeat.

The odds are not in the gambler's favor. In fact, the odds are stacked against him and you. The best advice here is not to gamble with your financial future. Realize the money you spent on your house to improve the kitchen, add a pool, or build an extension is gone. This is not an easy realization, in some cases, but it is the truth. It is better to stack the financial odds in your favor and stop throwing money away on an overleveraged property. Use your energy in a positive way by making a plan for a new future.



With a short sale, you are the driver on your financial bus.

When you become directly involved with your financial future, you are making informed decisions about how your finances will be affected and what is going to happen. Seeking answers for what is best, given your current situation and personal circumstance, is much smarter than continuing on a path that is no longer working. Work with the bank, a realtor, and sometimes a lawyer to implement a plan to resolve your house debt. Be the driver of your financial bus.

A short sale is an opportunity to negotiate with the bank, control your financial outcome, and permanently resolve your debt. You no longer are gambling.

What will happen with taxes, the bank, and the IRS?

Taxes can be daunting in general. In the case of a short sale, the bank typically forgives you the difference between the amount it receives from the sale and the

amount of the mortgage loan. This difference is called a "deficiency". It is important to become familiar with the various processes one might encounter after a short sale, if this is the case.

Among these post closing issues is the IRS form called a 1099. It may be issued by the bank after your short sale. I will discuss the impact of 1099 reporting in detail later in this book, but again, there is good news. There are options available which allows for the neutralization of the 1099.

In 2007, President George Bush signed the Mortgage Debt Relief Act and Debt Cancellation. This Act had a major impact on short sales and improved homeowner options when dealing with that negative tax consequences of mortgage debt forgiveness. Basically, the President encouraged struggling homeowners like ourselves to take control of our situation and permanently resolve our debt, tax free, through a short sale. Visit www.irs.gov if interested in more information. This law remains in effect through 2012. Encourage your representatives to extend this positive legislation.

The fear of the unknown should not prevent you from resolving hundreds of thousands of dollars worth of debt because you are unsure about taxes.

What does it matter? Why do anything if I will lose my home anyway?

You mentally, emotionally and financially struggle with the dilemma of your over leveraged, undervalued home. The struggle comes from reduction of income, change of personal circumstance, devaluation and loss of control.



Do you own the house, or does the house own you?

Well, there are many reasons we use to avoid dealing with our over leveraged property or foreclosure. It is human nature to want to avoid uncomfortable situations; however, not making a decision IS making a decision.

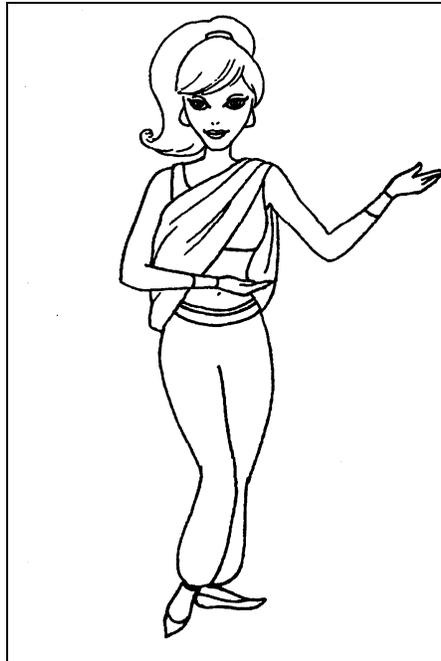


Inaction is not financial planning.

Inaction takes away one of your most powerful tools to creating a prosperous future, *INPUT!* Only you know what is

best for your financial life. Not the banks, courts or credit bureaus. They will make decisions that are best for them and without your input into the process, you don't have a financial voice.

Even if you are unsure, movement creates hope. Just reading this book is putting control back into your financial life. Knowledge is powerful.



Inaction does not improve any financial challenge.

Don't be frightened into inaction. A short sale is the answer nine out of ten times, and with a short sale professional, you can permanently solve the problem.

Ignoring or avoiding the debt not only prolongs the life span of the problem, this inaction can allow circumstances which carry serious legal and financial concerns for years to come like personal judgments, fees, and negative credit reporting. But more importantly, it can create regret over not acting when you had a chance to input what you wanted in the process, and decided not to participate. We regret

more often what we don't do than what we do. Every problem has a solution if you act.



There are other options than foreclosure.

First, accept the fact that your house owns you. It is no longer an investment or the safe haven it once was. There are other options than foreclosure. Facing the situation and choosing to short sale may resolve all the issues at hand in as little as ninety days. Ninety days! This is compared to dragging the stress out for one to two years and maybe having a foreclosure follow you around for the next twenty years.

I recently negotiated a short sale for a client where we submitted the short sale information and package to the lender on August 8 and received the short sale approval to sell the property on August 26!!!! In three weeks this homeowner solved her debt problem *permanently!* No struggle. No courts or lawyer. No embarrassment.

Remember, inaction does not solve the problem and stops your future from beginning. You deserve the very best in life. There is no longer any need to delay your recovery.

Accepting the fact that you cannot afford your house or that your home is no longer the asset you thought it was, is key to moving past inaction. So, take your power back! Seek

answers to your questions. Answers are there with your local professionals. There is good news out there for you, when you start to ask for help.

Where do I start?

Now that you agree action is needed and selling your house is the first step, now what.



Do not rely on neighbors or water cooler advice as it tends to be inaccurate and conflicting.

At the moment, there is a lot of information in the media about mortgages, short sales, foreclosures, and investments. It is hard to know what information and advice applies to you.

And though well meaning, do not rely on neighbors or water cooler advice as it tends to be inaccurate and conflicting. Polling people for what they chose to do does

not work as financial planning either, as this information, in most cases, will not be applicable to your situation.



Speaking to a professional versatile in many areas supplies you with the information you need to make an educated decision suited exactly to your circumstance.

The second step is go see a short sale professional, like the realtor that sold you your house. There are people to help you. Start looking. Ask them about their experience with short sales. Just like you, many realtors are reluctant to handle short sales because they are unsure of the process. If so, that realtor won't be a good fit for you to work with in short selling your home.

If you choose to short sell your house, list your home with a realtor that sees your short sale as an opportunity. She gets a sale and you are freed from a financial burden! A win/win situation.

If you go to someone who just specializes in bankruptcy, he will probably advise you to file for bankruptcy, and just as you would not go to a doctor if you

were not sick, this may not be necessary. You may have other options. Bankruptcy is only one tool, and you may not need that extreme option if you just want to sell your house.

Speaking to a professional versatile in many areas supplies you the information you need to make an educated decision suited exactly to your situation.

In addition to giving you accurate information, professionals are a valuable resource in being able to analyze your exact situation objectively and without judgment. Your home, market, and finances are personal to you and different from the "average person" used by the evening news to suggest financial advice to consumers. You need someone to review your situation.

When do I start?

Clients ask me "*When is a good time to begin?*" I tell them to begin looking at options the minute you can no longer make your house payments and continue paying your other bills; you know that you won't be able to make your house payments in the near future (one to three months away); you have a major change in personal circumstance (divorce, death or relocation); you are using savings or retirement funds to make house payments; or you look at your mortgage statement and the property value is worth substantially less than the principal owed on your mortgage.

I define "substantially less" as: if you make the mortgage payment for the next 5 years and your house would still be worth less than the mortgage principal. In that case, you are renting your house not owning it. Look at the short sale option now, as opposed to in five years, when the short sale option may not still be available to you.

Like the old cliché says, timing is everything. Banks are now willing to review your personal circumstances and release you from your mortgage debt obligations. There is no guarantee this opportunity will remain. Action and input are your best resources to a bright financial future.

The Good News

The stresses and questions to dealing with an over-leveraged home are very personal. This not only encompasses private finances, but also affects the very heart of our lives. *Focus on the goal of solving the problem, not delaying it.*



Do not wait until the sheriff is standing at your door.

When borrowers and sellers leave the short sale table, they feel a sense of closure, relief, and freedom that comes from the peace of mind that they have made good financial decisions. These are decisions that will serve them and their family well for the rest of their lives. No one is going to feel that elation when their house is foreclosed upon by the sheriff or when the bankruptcy trustee declares them bankrupt in court. Therefore, don't wait until the sheriff is standing at your door.

Instead, of confronting the sheriff at the door, it is possible to take control of the situation yourself. You can choose to take action now and have input before a

foreclosure is filed or bill collectors start calling. You too can feel the satisfaction, relief, and hope after you get up from the short sale table, like many others have felt, and realize that you have rescued your financial health with a well thought out plan.

I have received many thank you cards from numerous clients, who have experienced exactly this kind of joyful relief after settling their long term financial burden. By finding a solution, now, leaves room for hope for the future and renewed faith in your wellbeing.