My Short Sale Guru's Guide for Real Estate Professionals to Empower and Invigorate Sales

Contents

“Enthusiasm is the mother of effort, and without it nothing great was ever achieved.”

–Ralph Waldo Emerson

CHAPTER FIVE

Listing Appointment: How to Turn a Lead into Short Sale Seller

Congratulations! You have the listing appointment so your “farming” groundwork paid off. Now the prepared agent begins the process for a successful short sale with a well-orchestrated listing appointment. A listing appointment is an agent’s moment to shine and build a rapport with the homeowner. This rapport and trust keeps the homeowner in the short sale process even if the short sale takes longer than planned, needs more paperwork than anticipated, or loses several buyers. When you take a short sale listing, the important thing you give the homeowner in return is the hope that you will succeed on their behalf. The following steps will help you win over that homeowner with your expertise and increase the likelihood that he/she will stay in the process from the short sale start to finish.

Basic Title Review

Now you need to prepare for a listing appointment meeting as you are the one giving the presentation. As noted in Chapter Four: “Farming,” the Internet is a powerful research tool. Numerous communities now allow public access to property records in a few keystrokes. I recommend that agents review the clerk of court, county property appraiser, and tax collector websites when preparing for the listing appointment meeting. The clerk of court will tell you if a foreclosure has been filed and when. Every county has an average period that an uncontested foreclosure will take and this data is available to agents. By knowing when the foreclosure began will help an agent determine if there is still time to process a short sale.

The county appraiser will show the deed to confirm the property owner or owners. No agent wants to find out after the short sale package is submitted to the bank that a seller needs to add additional information because the homeowner did not remember a co-owner. Ask the homeowner at the listing appointment if the parties on the deed are on the loan papers. One easy way to see who is on the loan, is look at the mortgage statement. The name that appears on the statement, is the person(s) on the note and mortgage. No divorce court or bankruptcy judge can remove a person from the note. They can obligate another spouse or discharge the obligation to pay that debt but for short sale purposes, that person's information may need to be submitted.

The county website may show the number of mortgages and which banks are involved. Be careful since many times mortgages have been sold or reassigned since they were recorded. These assignments typically are not on the county's free website. A prepared agent asks at the listing appointment for copies of the current mortgage statement(s) to confirm the current servicer or bank.

The tax collector's website is another site that should be reviewed before a listing appointment. This site will let you know if past due taxes will need to be added to the HUD and thus, reducing the net to the bank. As discussed in Chapter One: "The Process," the goal is to secure the highest net to the bank insuring a quicker approval waiving the deficiency. If the homeowner is several years delinquent in taxes, that will have an effect.

These findings should be discussed with the homeowner at the listing appointment. Many homeowners do not know what information the short sale agent or the third party processor needs. By discussing these findings, you will gain information that the homeowner may not otherwise tell you.

A well-organized listing appointment will save an agent weeks in short sale processing creating fewer delayed closings.

Bank Correspondence

Several banks are offering "fast track" short sale processes for certain loans and will notify the homeowners. Prepared agents asked at the listing appointment if the homeowner received any of these notices. These shortened processes dramatically help the short sale close faster. Banks will also notify homeowners about the short sale options and how the process is progressing. Encourage your homeowner to open bank mail and notify you when letters are received so you can verify the sale is on track and being processed in the best program available to you customers.

Judgments

Many short sale homeowners have judgments or IRS issues. These result in title problems that can be solved before closing if an agent is prepared. Ask the homeowner at the listing appointment if there is any city, county, contractor, or IRS issues that may influence the selling of the property. An experienced agent knows these issues can be resolved and not delay a closing if addressed at the time of the listing appointment. A homeowner may be embarrassed and not offer the information until asked but it is vital information to an agent preparing for a successful short sale.

Property Repairs

Homes need upkeep and many times short sale sellers do not have the funds to maintain or repair structural issues. Ask at the listing appointment if the homeowner is aware of things that need to be fixed, updated, or replaced. Banks do not make these adjustments but they will agree to a lower price if an agent submits estimates from a licensed contractor. If you know the house needs a new roof, have an estimate prepared and adjust the listing price to reflect the repair. Submit the estimate with the short sale package. An agent who does this has just saved a deal and eliminated frustration from a later short sale delay. For example, my homeowner knew of termites. She didn't have the funds to repair damage but she could afford spraying to avoid continued damaged affecting the short sale. By me asking about the home's condition, we solved the problem before it became a "deal killer."

The Number of Loans

In a short sale, the first bank allows some of the sales proceeds to be given to the second bank in order to secure a release of the second mortgage. The number of loans against the property is important because each loan may need to receive a separate short sale package. Sometimes, if the same bank owns both loans, it will allow for only one process and approval but this is the exception to the normal situation. Thus, the more loans that exist on a property may result in a longer approval process. With multiple loans, be prepared that the approvals may come days or weeks apart. You need to ask banks what happens if the approval expires while you are waiting for the other bank's approval.

Also, one bank may require the other bank's approval letter to issue its approval. These issues add time to the process. Make sure you share this information with the homeowner. Knowing this information helps with the expectation of how long the short sale will take to be approved and limits homeowner frustrations if issues arise with the approval timings.

Short Sale Approval Timelines Vary Bank to Bank

A listing agent needs to ask which bank or banks own a mortgage on the property. Each bank has different internal guidelines and resources to process short sales. Some banks are faster than others. Become familiar with the approval speed for each of the large banks in your area. This will help a listing agent give an appropriate time estimate for the homeowner. The listing agent doesn't want a homeowner to expect the short sale to be approved in thirty days. It would be great if it happened but at the time of this book's publishing, a thirty-day approval is still a banking industry goal, not the standard.

Is the mortgage current? If not, how many months delinquent?

The agent should ask if the mortgage payments are current. If the mortgage is delinquent, then he/she will need to know how many months it is delinquent. Having reviewed the clerk of court website the agent will know if a foreclosure has been filed but not how many months of mortgage payments are owed the bank.

The time it takes the bank to foreclose is one piece of the puzzle. Some homeowners want to remain current on the mortgage to avoid collection efforts and preserve their credit score. An agent needs to ask the homeowner if he/she will continue the mortgage payments during the short sale process and if so, how to explain what the hardship is to the bank.

The 2012 HAFA guidelines changed to allow for a short sale approval with a current mortgage, as covered later in the chapter but the listing agent needs to know what HAFA approval guidelines are to be able to ascertain if the homeowner may qualify. Some homeowners just stopped paying within the last ninety to 180 days without a foreclosure filing. An educated listing agent knows most banks attempt internal collection efforts for the first ninety to 180 days of a loan delinquency. If the loan is only thirty to ninety days delinquent, you have time to send a short sale package to a bank to attempt delaying a foreclosure filing.

It is common that second mortgages are charged off the bank's account and sent to a collection company at 180 days. So when meeting with a homeowner, if the second mortgage is nine months past due, it may have already been charged off. The short sale package will be sent to the collection company and the short sale approval will come from the collection company. The bank is no longer involved. Share this information at the listing appointment table with the homeowner. It shows the homeowner that the agent has experience and knowledge to navigate the short sale through to completion on the homeowner's terms.

The List Price Is the Market Value Not Mortgage Value

Traditional sales require an agent to evaluate comparable sale prices from the community to determine how to price the potential sale property and pay off any existing mortgage. The home is marketed based on these neighboring sales, or what is known in the industry as "comps." This range of sales prices is shared with the homeowner. The listing agent discusses the range and what price is recommended for the homeowner to ask or list the home for potential buyers to consider. Also considered is the home's age, size, repairs, or upgrades that differ from the other sales that affect value. The listing price helps the homeowner calculate the amount of money to be received or needed at the closing table for the next purchase or move.

Short sales use the same information, but apply it differently. The short sale listing agent will discuss a price range for the homeowner to consider for the home. I recommend selecting at the low end of the comps range versus that of a traditional sale where a seller selects at the high end to maximize the closing table check. In a short sale, there is no need to consider the mortgage amount in the listing price evaluation. Buyers buy based on market value. If an agent wants to find a short sale buyer, than the house must have a market value price.

In a short sale, the seller doesn't get a check from the sales proceeds. Seller may receive bank seller incentive check but the check amount is not influenced by the price. The goal in short sale processing is getting a buyer fast. The sooner a buyer enters a contract on the property, the sooner the short sale process in completed and approved. Speed is the goal.

The bank will order a Broker Price Opinion (BPO) or bank appraisal. The BPO takes place to confirm that the sale price is a fair market value to the bank and, if needed, the bank will counter the buyer's offer. The goal of the listing agent is to price the house within the market comps range and locate a buyer quickly to complete the short sale package for review.

Move Out Timeline

Also discussed in a traditional listing appointment are the current real estate market inventory and how long other homes have been on the market before being sold. With current market trends and inventory levels, the agent estimates an offer and closing timeline so the homeowner knows how to plan the move out and future housing choices. A short sale agent will perform the same market evaluation. The most common factors are the homeowner's bank or banks' period for short sale approval. The homeowner needs to make moving preparations, especially since they may not be receiving a check at closing. Limited funds sometimes limit the homeowner's options on how to move and where to move.

Get an honest answer up front.

Make sure that the seller is motivated to sell, willing to move, and able to relocate. Get an honest answer up front, even if it is that the seller needs to live for six months for free in order to save money for a rental. This knowledge helps eliminate stress on the agent and other parties. Armed with the seller's move out plan, the agent will avoid the trap that the homeowner is emotionally or financially stuck in the house and thereby reluctant to work with the agent when the time comes to find a new home.

The homeowner may be sad about the loss and or can't or doesn't want to start paying living expenses again. This seller may be less prepared when it is time to relocate and may delay the sale closing. As a proactive agent, know this from the start and assist the seller in finding a new home to relocate within his/her budget. Example: one seller had the condominium unit foreclosed by the association. He refused to relocate. He had no move out plan even though he had not paid the mortgage or association in over three years. This refusal made negotiating a settlement with the association complicated as they wanted proof he was really selling and not just further delaying things. Because his refusal delayed the process, the bank threatened to close the file. In the end, the seller moved, the association agreed to vacate their foreclosure title and the bank extended short sale approval to close. However, the seller's inability to move when needed added to the difficulty of sale.

Four Types of Short Sale Sellers

In my opinion there are four types of short sale sellers: no job or savings; a job or savings but not enough to support the home; can support the home but wants or needs to sell; and/or an investor who wants or needs to sell. Your homeowner may fit into more than one of these categories so that using some recommendations from each of the clients to develop your short sale processing plan is suggested. Review the criteria to discuss with the homeowner at the listing appointment.

The First Type of Homeowner Has Neither Job Nor Money

You must have income to support the home costs and living expenses to qualify for a loan modification. You are not eligible for loan modification if you are unemployed. So, if your homeowner says he/she might want to modify his/her loan before trying a short sale, an agent should tell the homeowner that most banks wouldn't allow a loan modification in this case.

Unemployment and under employment meets the HAFA requirement of a documented hardship. Also, documented unemployment or under employment is needed by the homeowner when applying for a new home loan, post short sale, in one to two years. With this type of homeowner, it's very important that the move out plan is discussed at the listing appointment. Since there are limited funds, time or a seller incentive may be needed for this homeowner to agree to sell the home. An agent who knows the homeowner's needs can let the buyer know a post approval closing timeframe, discuss a post occupancy agreement with the bank if the seller is unable to move at closing and request bank and HAFA incentive on the HUD and settlement statement to maximize the seller incentive amount to insure the seller will close the sale. Also, this homeowner may have fallen behind on other bills, and have judgments that may influence closing or the home's repairs have been stopped. Ask about these issues to help avoid frustrations and embarrassment later. It will be easier for them to discuss this in private at the listing then at the closing table in front of all the transaction's parties.

The Second Type of Homeowner Has a Job but Not Enough Money to Keep the Home

In this situation, the homeowner doesn't qualify for loan modification because there is not enough income to support household expenses. Many times multiple incomes are needed to meet the household expenses. Sometimes a job loss for one member of the family, an illness, or retirement may prevent a homeowner from paying his/her bills. The organized agent takes time to insure the change in household circumstances is documented by the homeowner when preparing the bank's financial worksheet and hardship letter. Explaining the financial change is important since the homeowner has financial resources.

As in the first homeowner, this homeowner's documented hardship will assist with a new home purchase in one to two years, thus building an agent's future homebuyer list. Example: a client completed a financial worksheet showing excess funds each month. I knew this was not accurate based on how he described using credit cards to make ends meet at the end of every month. When we discussed his expenses, I realized he hadn't include the "surprises" faced every month. He was divorced and responsible for his daughter's medical co-pay and car insurance. The home needed roof repairs so he just made adjustments or "patches" because he couldn't afford a new roof. The cost of these adjustments added up month after month and need to be added to the expenses. The roof repair cost needed to be documented to support the lower-than-market price offers when disclosed to buyers. These were just a few things he did not document for the bank. So the financial statement incorrectly reflected the bills he paid each month and the home condition. It appeared as if he had more disposable income than in reality and the home was in top shape.

A prepared agent talks with the homeowner about expenses. If the financial sheet for a homeowner shows a net income every month but the homeowner's lifestyle shows a different pattern of check-to-check or living off credit cards, then the form is incorrect. The bank financial forms are broad. Sometimes homeowners miss some expense items. It is very important the bank sees what the agent sees in the homeowner's financial situation.

For this homeowner, I recommend not encouraging homeowners to use retirement funds or savings to keep mortgage payments current. The homeowner may need these funds to relocate or to support household expenses. On the other hand, I don't recommend telling homeowners not to pay the mortgage. I encourage homeowners to consider their individual financial circumstances and needs weighed against the benefit of using savings to avoid collection calls or reduced credit score. If they choose to use savings, the agent needs to have a short sale plan and discuss the factors that affect the timeline for a short sale approval so the homeowner knows how long the savings account needs to last.

The Third Type of Homeowner Has a Job and/or Money but Doesn't Want to Sell the Home

The fact that the house is worth less than the mortgage principal is not considered as a hardship to permit forgiveness of deficiency. The bank just considers it a bad investment.

The hardship letter should give a detailed explanation about what changed in the homeowner's circumstances between the loan origination and the current time and if the homeowner has assets.

The homeowner must still submit a hardship letter to qualify for a HAFA documented hardship. It is important that a homeowner spend a considerable amount of time on the hardship letter explaining the situation since there are assets and income. A homeowner should give a detailed explanation about what has changed in the personal circumstances between the loan origination date and the current time to support forgiveness of deficiency. Many banks offer internal programs similar to HAFA even if that program does not accept you.

Divorce, death, job relocation, marriage, retirement, and the birth of child are all valid reasons to want to sell a home, even if the homeowner can pay the mortgage. These reasons may qualify you for forgiveness and HAFA. Most of these situations come with increased financial burdens that are considered a hardship and need to be explained to a bank in writing. A catastrophic financial change is not always necessary.

Nine times out of ten, a short sale is better than a loan modification, because a loan modification typically does not reduce the principal owed on the mortgage. Modifications generally just modify the interest rates and/or the length of loan, moving what is owed to a later part of the loan schedule. Therefore, if you are moving, getting a divorce, or the home is substantially overleveraged, changing the interest rate will not help and becoming a landlord to support an overleveraged house may not be a good financial plan.

The Fourth Type of Client Is a Non-Primary Residence Investor-owned Property, Who No Longer Wants the House for Financial Reasons

HAFA now will consider a non-primary residence. This type of homeowner may also be eligible for bank incentives, especially in the context of what banks call a "high loss" file. Like the third type of homeowner, an investor must spend time explaining the hardship to qualify for this program or achieve a waiver of deficiency.

If the property is owned by a limited liability company (LLC) or corporation (Inc.), the members of the LLC or shareholders who may have personally guaranteed the mortgage note or title may have been transferred into the company name after the loan was originated. In this case, the seller may be required to provide personal financial information along with the LLC or corporate information. At the listing appointment, an experienced agent asks how the seller took title of the property and if it was transferred after closing into the company. If yes, the agent should collect the homeowner/LLC member's personal information.

How to Increase the Likelihood that a Loan Deficiency Will Be Waived in a Short Sale Approval

There are options that homeowners may consider when dealing with a deficiency. Repeatedly, I have successfully had deficiencies waived for clients even if not accepted to HAFA, but sellers must be thorough in the hardship letter describing the financial limitations to keeping the property. It helps to begin the short sale process at or before the homeowner goes delinquent on the mortgage as the lower the default costs (attorney fee, legal costs, escalated interest, and late fees), the higher the recovery for the bank.

A strong buyer who can close the transaction within the original approval timeframe is the best choice. This way the bank does not have to spend a lot of time and money on foreclosure attorneys. I define a "strong" buyer as a cash buyer, one who can close quickly and does not have the risk of being denied in the buyer loan process. Per last bank estimates, buyer loans increase the likelihood of the short sale cancelling by 40 to 60 percent. So, when the short sale bank looks at your contract with a buyer loan, this is what they are thinking, "Closing delays, approval extensions may be needed, and maybe buyer will cancel this sale."

Another rule of thumb I use is that banks like to close out risky or bad loans by the end of the quarter, especially by the end of the year. So, encourage your homeowners who haven't decided to proceed with the short sale if afraid it will take too long to reconsider submitting around these times. The bank may give more favorable short sale approval terms to insure that the sale closes quickly during these times. I also receive a flurry of approvals during these months.

HAFA: Home Affordable Foreclosure Alternatives

A prepared agent who knows whether the homeowner is eligible for HAFA approval before going through the process will save time. This shows the homeowner agent expertise, and this agent will have a successful short sale business.

All four types of short sale clients are all eligible to apply for HAFA if they meet the guidelines. HAFA is a good program that may give a seller up to $3,000 in relocation expenses. It requires a bank to review the short sale request before foreclosing, and the deficiency is forgiven.

In a short sale, the first bank allows some of the sales proceeds to be given to the second bank in order to secure a release of the second mortgage. The 2012 HAFA guidelines increased this payment amount from the first banks to the second banks. It is now $8500. An interesting trend has been first banks refusing to allow the $8500 payment to the second bank, if the net proceeds to the first bank is less than needed. I have been frustrated by second banks, who in the short sale process, accepting the $8500 only as a release of the lien against the property and not the note obligation against the homeowner. The second bank then retains the right to collect the balance owed from the homeowner in the future. I have not found a consistency in the two above patterns to explain why this is done or allowed by HAFA but watch for second mortgages when you take a listing.

Banks consider second or third mortgages that were taken out by the homeowner to buy or finance other purchases as a credit card not a home loan. In my experience, a refusal to waive the deficiency on the equity line is more common on these short sale mortgages. Also note, these mortgages do not fall under the tax exemption created by the 2007 Mortgage Forgiveness Debt Relief Act, unless the funds were used to improve the home. So, the homeowner may face tax liabilities, which need to be discussed with an accountant.

At the time of writing this book, to qualify for HAFA, the homeowner must meet all of the following:

- a documented hardship,
- have not purchased a home in the last twelve months,
- first mortgage cannot have a principal balance over $729,750,
- the mortgage must have originated before July 1, 2009,
- the homeowner was not convicted in last ten years of felony larceny, theft, fraud, money laundering, or tax evasion with respect to the mortgage or real estate transaction;

HAFA is only available for mortgages that are owned or backed by Fannie Mae and Freddie Mac or serviced by a participating mortgage servicer. The servicer list is available on the Making Home Affordable website. You should request HAFA consideration when filing for short sale approval and in the hardship letter. I also recommend that my clients inform the bank they are not able keep the home; therefore a loan modification is not an option due to no income or an income short fall as in the first two types of short sale clients. I make this recommendation because, occasionally, a loan modification review is necessary before processing a short sale. FHA loans specifically may require a loan modification review. Informing the bank immediately that the homeowner will not qualify for a loan modification may eliminate this obstacle from the beginning.

You or your third party negotiator should specifically request the HAFA $3000 moving incentive and deficiency forgiveness when submitting the HUD or settlement statement with the short sale package. Also, if you know the bank allows for additional seller incentives, add that to the HUD, as well. Example: my client had a Chase loan on her primary residence. On the HUD, I added a $3000 HAFA and $30,000 Chase seller incentive. Chase allowed $3000 plus $15,000. I am not sure if it was because of my asking but at least I could tell my client we were working for her from the beginning.

Choosing the Right Short Sales

In order to maximize your profit and efficiency, it is essential you are wise in picking clients. An agent's time is valuable and limited. Accepting a short sale listing that has a sheriff or trustee sale date within thirty days will be a difficult one to get approved. Time is not in the agent's favor. Also, if your homeowner doesn't have fax or Internet, the agent will lose time collecting documents and getting signatures. US postal service is typically not fast enough to comply with the bank request to return an item in twenty-four to forty-eight hours. The lack of technology delays the process, frustrates the parties, and makes a successful short sale harder.

Agents should choose clients who are accessible. Working with a seller living/residing outside the US is not uncommon. You have a choice about what listings to accept. Knowing the homeowner's limitations on cooperating with a short sale is one factor to consider. It is very important to remember that the seller must cooperate with the short sale by providing the necessary documents quickly. Every delay on behalf of the seller heightens the delay of the approval, which risks the loss of the buyer.

Comparatively speaking, there are clients whom agents should choose; clients who are eager and diligent in filling out necessary paperwork and who return all documents in a timely manner. Working with a seller who is just trying to delay the foreclosure is not an effective use of your time. You can't help a homeowner short sale unless he/she truly wants to sell. If you are not going to handle the negotiations for your sellers then have someone in place to refer them to when taking the listing, as the sellers should start collecting the needed short sale documents at that time and you can introduce them in the process

HOA/Association Issues

A prepared agent asks at the listing appointment about the HOA or condominium association fees. Many short sales fail to close because of past due HOA fees that are higher than estimated. Banks typically refuse to cover the entire costs of delinquent association fees. This is why I always recommend to our sellers that they pay the HOA fees, if possible. If they are unable to pay, it is most helpful to know how much is owed when the short sale process begins as it will assist in speeding up the short sale negotiations and closing. This association figure should be presented to the bank on the initial submission of the HUD statement. Then if the bank refuses or reduces this amount, the agent can negotiate with the association to reduce the amount before closing or ask the buyer to contribute at the sales table.

Tenants

Tenants need to be addressed in the same context as a reluctant seller. A savvy agent discusses with the owner the tenant's lease and whether he will cooperate with showings. Tenants can frustrate the efforts of a cooperative seller trying to short sale. Agents should know how to proceed showing the property and how to answer the buyer's agent questions on tenants, the deposit funds, or proration of rent.

Deed in Lieu

Homeowners have other options than short sale. A "deed in lieu" is often discussed. A homeowner may negotiate the return of the property to the bank to avoid the foreclosure process. The "deed in lieu" returns the property to the bank in return for mortgage forgiveness and release from the promissory note.

Release language is actually in the deed, which becomes public record.

The note release or forgiveness language is actually in the deed, which becomes public record. Most banks also have the borrower sign a settlement agreement closing out your loan. A "deed in lieu" has a similar evaluation process to that of a short sale, except that there is neither a HUD-1 nor a sales contract. Most banks require the property to be listed for sale for at least ninety days before a "deed in lieu" request.

If the property is seriously delinquent and the foreclosure is almost complete, there is no financial incentive for the bank to waive the deficiency because they have already paid to take the house back.

In my opinion, there is no drawback to a "deed in lieu" but they are difficult to obtain in some markets. I highly recommend that an agent refer the homeowner to an attorney to review the documentation sent by the bank to insure that the homeowner is, in fact, signing for forgiveness in exchange for the property. If the property is seriously delinquent and the foreclosure is almost complete, just like a short sale in this case, there is no financial incentive for the bank to waive the deficiency and agree to a "deed in lieu" of foreclosure. It has already paid lawyers and expenses to take the house back and the homeowner has little advantage to negotiate with the bank. So, it is important to start right away in the short sale process because if the house does not sell, the homeowner may still have time to try a "deed in lieu."

The Foreclosure Process

The foreclosure process typically begins when the homeowner misses more than ninety to 180 days of mortgage payments. Most banks pay their foreclosure attorneys in increments. This means they are paid based on how far the foreclosure proceeds. The more work the foreclosure attorney does to move the foreclosure forward, the more she is paid based on the contract with the bank. Banks do this because not all foreclosure cases result in the sheriff or trustee selling the property, like in the case of a short sale. So, the incremental payment agreement with the bank's attorneys reduces the bank's costs.

The foreclosure process varies state to state so I recommend an agent go to the clerk of court website and print the foreclosure information for the listing appointment. This is general information about what the homeowner can expect and the agent is not at risk of giving legal advice. I recommend against an agent reviewing any legal documents the homeowner may have been served with or received in the mail. An experienced agent wants a comfortable seller but doesn't want to be responsible for misinformation about a court proceeding.

If this foreclosure information is not available from a state or county source, provide the clerk's website, phone number, or the contact for an attorney if the homeowner has questions. The bank's payment agreement with its lawyers works in an agent's favor. If an agent submits a strong purchase offer on the property, the bank may delay sending it to the foreclosure attorney. If already in foreclosure litigation, the bank may tell the lawyer to slow down the process. The bank doesn't want to pay attorney's fees and litigation costs if the house may sell. Therefore, the bank evaluates the likelihood of continued default against legal costs. The short sale process may delay or avoid foreclosure filings all together.

Bankruptcy

I am a strong believer that bankruptcy is not a final solution to financial problems. A bankruptcy follows the person for seven to ten years past the discharge of the debt. It will affect every application for employment, loan, and rental agreement. Bankruptcy is a *tool* for the right situation but not always the right *solution*, especially in cases where the home loan is the only problem.

Bankruptcy, like a short sale, slows a foreclosure. A short sale should not be started until the bankruptcy is discharged. A listing agent should ask the homeowner at the listing appointment if bankruptcy has been filed or if the homeowner is considering filing bankruptcy. Time the short sale process accordingly.

Do not let your homeowners get talked into bankruptcy. It is a very serious and lasting step and in many cases not necessary.

Homeowner Questions and Concerns

Financial loss is a fundamental human issue. As an agent, you may not have gone through a short sale process personally. It is essential you understand your clients and become familiar with the mental and financial stresses they are handling. In this way, you will be able to emotionally connect with them and better serve their needs.

Clients' homes involve the most personal part of their daily living. Being faced with losing a home is an extremely difficult and personal process. For distressed homeowners, one of the first steps in a successful short sale is working through the emotional and mental issues of dealing with the loss of their home and how that affects the core part of their financial life. Agents need to answer many of these homeowners' questions to make them feel secure in the decision to short sale. Without these answers, homeowners may not complete the short sale. Here are some of the emotions and questions agents may face at a listing appointment.

Embarrassed to Admit a Mistake

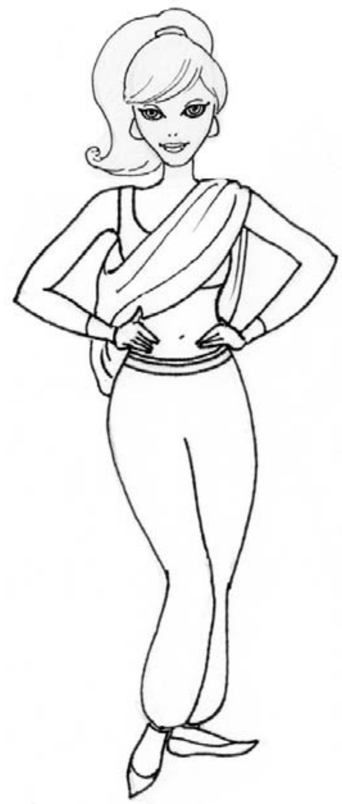
Homeowner embarrassment may prevent agents from knowing the whole situation at the listing appointment table. Encourage homeowners they made the best decision at the time when the house was purchased and the housing market or their circumstances have changed. There is not fault or embarrassment in that.

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

Homeowner Not Sure a Short Sale Is the Right Choice

An experienced agent explains that if the home is severely undervalued a short sale is likely no matter when the property is sold. Time and continued payments will never equal the mortgage. In a case where a home is worth one-third to half of the mortgage principal and the homeowner doesn't plan on living in or owning the property for the remaining mortgage period through payoff, then the homeowner will likely short sale at some point in time. Period.

This is based on the normal home appreciation statics that estimate 2 to 5 percent home appreciation annually, and the fact that the first ten years of a mortgage payment goes almost entirely to interest with no principal reduction. So, the home value over time will not increase enough to pay off the mortgage principal and closing costs. In this case, short selling now while there are government and bank programs in place to assist the homeowners is a better plan than waiting until these options have expired and the home has to be sold.



You are financially stronger to resolve the loan debt with a short sale.

Credit Rating

A good credit rating is critical. Good credit saves people money on interest payments with credit cards, car loans, and home loans. So keeping credit healthy maybe an important goal for a homeowner.

Credit is damaged in two ways. The first way, credit is damaged by the number of months delinquent on accounts. Any delinquent accounts are reported by creditors and show on a credit report, reducing the score. So, when a mortgage payment goes past thirty days due, the bank will report that to the credit bureaus and that will reduce the score. Each additional delinquent month adds to the negative reporting to the credit bureaus.

A homeowner should consider the value of a credit rating in comparison to personal circumstances.

Now with HAFA allowing homeowners to remain current, if their bank participates and they qualify, a homeowner has the option to avoid this type of credit damage. In an alternative situation, a homeowner might not remain current or choose not to pay the mortgage to save for relocation. This scenario is more damaging to the individual's credit rating but is done as part of a relocation plan. Each homeowner can decide which option is right for them at the listing appointment. The agent should ask the homeowner to notify him/her if the mortgage or association payments are stopped at some time after the listing appointment. This way the agent can be alert for a foreclosure filing from either source and submit a revised HUD or settlement to the bank asking that cost be covered at closing.

The second way credit is impacted by a short sale is when the home is sold and the loan is closed. The credit reporting is "Account Closed. Settled for less than full value. Short Sale." As mentioned, this reduces the person's score approximately fifty points. Both of these negative reports will diminish over time. There are credit repair companies now designed to help short sale homeowners after the sale to improve their score and lenders are designing loan products to accommodate new home purchases for these homeowners as well.

The Additional Advantages to Short Sales

At this point, your clients may still be asking, why go through the hassle of a short sale, especially if there is no guarantee they will receive a seller incentive or waiver of deficiency to move? I am asked this repeatedly, so let me give you some very good reasons to help explain *why* homeowners should choose a short sale.

If a homeowner sells their primary residence, they may be eligible for a new home purchase with a Fannie Mae-backed loan within two years of a short sale on your primary residence. Additionally, if current on the mortgage when the short sale closes, the homeowner may prequalify for a new loan in as little at thirty days in some markets! Compare this to their primary residence being foreclosed; they are not eligible to apply for a Fannie Mae-backed mortgage for five years.

Short sales are not a negative for employers. Job applications do not ask about short sales but may ask about the other options. A foreclosure or bankruptcy may affect anyone seeking security clearance and may be considered a negative for future employers. It may be a cause for termination with current employers, as similar to a bankruptcy.

A short sale resolves one of the major debts on a homeowner's credit without the damage of a foreclosure or bankruptcy. A short sale solves the loan issue. A foreclosure just postpones it. A bankruptcy remains with a homeowner for the next ten years, as in every time the homeowner completes a loan application.

Finally

Be a prepared agent. Assemble a short sale team to help with seller questions. This team should include an accountant, lawyer, title company, and/or a representative to handle the negotiations. This works to ensure the sale will be successfully completed in a timely manner. Have the names of your team players at the listing appointment to share with the homeowner.