

A HOMEOWNER'S GUIDE TO SHORT SALES

EVERYTHING YOU NEED TO KNOW TO AVOID FORECLOSURE

Edina Realty[®]



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A Homeowner's Guide To Short Sales



Getting Out While Remaining Sane

Kris Lindahl

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About the Author

So, what qualifies me to not only give short sale advice, but also to write a book on the subject? Two reasons stand out, overall.

First, I am an active real estate agent, licensed in Minnesota and Wisconsin, dealing with short sales on a weekly basis. I have learned the nuances of the process by actually using them during the course of serving my clients. I know enough about the process to – well – to fill a book.



The second reason that I think you'll want to pay attention to the information in this book is that I am the leading short sale agent with the leading Minnesota brokerage, Edina Realty.

Finally, I have received extensive training in not only helping distressed homeowners, but in dealing with lending institutions as well.

Throughout my tenure as my broker's leading short sale agent, I've built an extensive database of the direct telephone lines to the decision-makers at all of the major lending institutions. This network is vital to making sure your short sale paperwork doesn't sit at the bottom of the pile on every bank's short sale negotiator's desk.

While I don't find myself all that interesting, and I don't like to brag, I do feel the need to let you know that I am qualified to not only help you personally through the short sale process, but to write about it as well.

With that said, I'll show you my credentials and then we'll get to the real business of this book: everything you need to know about short sales.

- ◆ Five Star Short Sale Certified.
- ◆ Equator REO Certified (Platinum).
- ◆ Equator Short Sale Certified (Platinum).
- ◆ Res.net Short Sale Certified.
- ◆ Res.net REO Certified.
- ◆ Certified Short Sale Expert.
- ◆ CRS (Certified Residential Specialist).
- ◆ Preferred Wells Fargo Short Sale Agent.
- ◆ Preferred Bank of America Short Sale Agent.

As you read this book, I'll be sharing (with their permission) some of my clients' personal experiences with the short sale process. I hope to show you that, while you may be feeling alone, and maybe even embarrassed, there is life after a short sale. My aim is to get you there.

Best Regards,

A handwritten signature in blue ink, appearing to be 'B L' followed by a long horizontal stroke.

In The Kris Lindahl Team We Trust

"Kris Lindahl has formed a technology-based real estate powerhouse in the Twin Cities area of Minnesota."

REALESTATE.COM

"Kris turned what was beginning to look like a nightmare short sale into a smooth one. His experience, network of contacts and easy-going manner made our short sale happen much quicker than we expected. Thanks, Kris."

MONTY AND LILY V. - BLAINE, MN

"You guys were great. Being a single mom, I was a bit scared and overwhelmed with the whole foreclosure and short sale process. I checked my credit report last week and it only dropped 20 points! The best part is, you guys were successful in getting my \$120,000 deficiency judgment waived."

AMY S. -NEW BRIGHTON, MN

"Kris Lindahl is one of the leaders in the country with Wells Fargo short sale loans, and has a proven record in getting short sale loans approved."

VIRTUALSTRATEGY.COM

"Thank you so much for all of your hard work. I would recommend you to everyone that is in a short sale situation. Your expertise with short sales is truly worth noting."

NICK AND HANNAH H. - MINNEAPOLIS, MN.

"I concur with your short sale expert claim. Your team is a well-oiled machine. If someone in Minnesota is thinking about doing a short sale and

they are unsure where to start, the first thing they should do is call Kris. This guy knows the ins and outs of the short sale process. Thanks!"

TOM B. - ST. PAUL, MN

"Well done guys! Thanks for allowing me to sleep at night. I tried contacting my lender for months to get a loan modification with no success. These guys were able to get my short sale done in 35 days. I only had 60 days left in my redemption period. These guys stepped up to help when I needed it most."

JULIE R. - EDINA, MN

"All I can say is thank you. You were the third company I talked to about short sales. Your professionalism along with your helpfulness separated you guys from all other companies. I am glad I made the decision that I did. You guys truly cared about my outcome. I am so happy to have no deficiency judgment!"

SHARI D. - MINNETONKA, MN

"I can't thank you enough for all of the help. Your communication made me comfortable with the whole short sale process. I have recommended you to my other family and friends going through these same tough times."

JAMES T. - SHAKOPEE, MN.

"You guys make up quite the team. Our short sales were extremely complicated with all of the other real estate we owned. Your attorney was able to sort through all of our real estate and makes this process seem easy. I think the greatest part of our short sales was we had zero out of pocket. These guys really do fight for your best interest. Two thumbs up!!!"

JONATHAN AND DEBBIE L. - APPLE VALLEY, LAKEVILLE, PRIOR LAKE, MN

“Newman's first law: It is useless to put on your brakes when you're upside down.”

—Paul Newman

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Introduction

“Foreclosure avoidance” may just be the real estate buzz phrase of the new millennium. An entire cottage industry has sprung up, offering distressed homeowners a variety of remedies to help save their homes and their credit ratings.

While visions of riches dance in the heads of the masterminds of these new industries, homeowners who can no longer make their mortgage payments – for any number of reasons – sink ever deeper into despair and confusion. What to do? Where to turn for help and information?

Probably the most heartbreaking moment in the process is when the homeowner, already distressed over not being able to meet his mortgage obligation, attempts to sell the home to get out from under the financial burden, only to learn that his home is worth far less than what he owes the lender.

This financial position is known as being “upside down” or “underwater” on the mortgage, and it aptly describes the distressed homeowner’s feeling of drowning in a debt she cannot pay.

I know it feels as if you’re completely alone in this underwater nightmare but, believe me, you’re not. National news articles are full of stories about everyday folks on the brink of foreclosure. Even the rich and famous haven’t escaped the real estate Grim Reaper.

For example, the NBA’s Allen Iverson and both the NFL’s JaMarcus Russell and Terrell Owens all experienced close encounters with foreclosure, and were saved by the short sale process.

Knowing you're not alone in this situation most likely brings little solace. However, realizing how so many Americans got here helps make sense of the situation.

From 2006 to 2009, our housing market saw a 30 percent decrease in home values. Couple that with the recession that brought about high unemployment rates, and the recipe for disaster for millions of American homeowners was complete.

I have helped many people avoid foreclosure by steering them through the sometimes perilous short sale process. While you'll find shelves of books that teach investors how to profit from the misery of the unfortunate short seller, I decided to devote this book to assisting the homeowner during what might be the most stressful period of his life.

Remember, above all else – with the possibility of foreclosure ever looming for those that miss mortgage payments – time is of the essence if we are to get your home sold. That said, I hope you will take the time to read through the short sale process to become better acquainted with what lies ahead.

Chapter 1: What is a Short Sale?

In this chapter, we'll take a look at short sales, then and now (i.e., how they've evolved over the past five years or so). I will answer the question: "Why would a bank agree to a short sale?" You will learn why banks deny some short sales.

So, what is a short sale? Maybe it's easier to tell you what a short sale isn't: **short**. There is nothing about the entire process that is easy or quick, which you'll realize as you learn more about it.

A real estate short sale is a type of real estate transaction wherein the lender agrees to accept a payoff of your mortgage that amounts to less than what you owe.

Now, why on earth would anyone agree to write off such substantial sums of money? There are several reasons, the most significant of which is that if the lender doesn't agree to a short sale, there is a high likelihood that the property will end up in foreclosure. Lenders don't like foreclosures for the following reasons:

- ◆ Lenders are in the business to loan money, not to carry a portfolio of real estate holdings.
- ◆ Studies show that lenders realize more money from the short sale than they do when a property is sold after foreclosure. This is mainly due to the fact that homes that are occupied by a homeowner are in far better condition than vacant homes.
- ◆ The short sale requires fewer of the lender's resources, since the homeowner and

The Typical Short Sale

The homeowner purchases a \$300,000 home, with 5 percent down, just before the real estate market tanks.

He loses his job and can no longer make his \$1,662.50 per month mortgage payments, so he decides to sell the home.

In the meantime, property values in his area depreciate by 30 percent, and the current market value of the home is now \$210,000. Yet he owes his lender most of the original \$285,000 debt.

The homeowner is upside down in his mortgage, to the tune of \$75,000.

his or her agent take over the marketing duties.

- ◆ A short sale helps the lender avoid the legal costs incurred from foreclosing on a home.
- ◆ Real-estate-owned properties (REO) – those the lenders take back when they fail to sell at a foreclosure auction – are expensive to maintain, insure and secure until they sell.

Lenders didn't "get" this until a few years ago. Back in 2008, when both the job and housing markets imploded, lenders weren't quite sure what to do with the massive number of borrowers that couldn't make their mortgage payments, and frequently made decisions that ran counter to their best interests. In fact, although I haven't conducted a scientific study, I would be willing to wager that many lenders lost billions of dollars due to such ignorance.

A good example of this comes from an agent friend of mine in Las Vegas. He told me a story about a client he worked with back in 2008. She – let's call her Chris – had an adjustable rate mortgage and, as fate would have it, the rate adjusted just as her boyfriend decided to move out of the house, sticking Chris with the entire mortgage payment. Now, this wasn't a tiny hike in her payment. Chris's mortgage payment went from around \$1,600 to \$2,200 a month.

Again, fate stepped in, and because the recession brought tourism in Vegas almost to a standstill, Chris was laid off from her bartending job in a well-known, high-end casino. So, here she is with no job, no job prospects, and a \$2,200 a month mortgage payment.

The first thing Chris did was call her lender. While today this might be a smart move, back in 2008, it got her nowhere. She begged, she pleaded, she beseeched – over a period of weeks – to get her lender to work with her on adjusting her loan to make it more affordable while she found employment. No dice. The lender simply would not budge, and made it quite clear that foreclosure was looming.

Finally, Chris decided to try a short sale. She hired my friend (the Vegas real estate

agent), and finally sold the home for \$114,000. Her loan balance? \$356,000.

If the lender had worked with Chris on modifying her loan, the lender wouldn't have lost \$242,000. Had the lender actually proceeded with foreclosure, which was exactly what they planned, the home would have lost even more value. Shortsightedness, thy name is lender – at least back in 2008.

Thankfully, the situation is different today. Lenders have learned, through situations such as Chris's, how to deal with underwater homeowners. Be that as it may, not all homeowners are provided the short sale opportunity. Why would a lender deny a short sale request? Here are a few reasons:

- ◆ The mortgage holder believes it will have a qualified buyer at auction.
- ◆ The offer to purchase is too low.
- ◆ The short sale package is incomplete.
- ◆ The homeowner has enough assets to work out a repayment plan with the lender.
- ◆ The buyer doesn't qualify for a loan.
- ◆ The lender sold your loan, and no longer retains the authority to approve a short sale.

That said, short sale denials are rare. The value of the home, the homeowner's hardship, and the buyer's qualifications are top priorities when lenders determine whether or not to grant a short sale.

If you qualify for a short sale, and have an experienced short sale expert at the helm, you should have nothing to worry about.

Chapter 2: Advantages and Disadvantages of the Short Sale

It's bad enough to feel like you are perched on the edge of homelessness; but then to be told that all of your options to avoid this disaster will, in one way or another, impact your credit or add to your tax burden, is downright frightening. Since we're discussing just one of your options when faced with foreclosure, let's look at the advantages and disadvantages of the short sale.

Short Sale Disadvantages

The Lender May Foreclose Anyway

It ain't over 'til the fat lender sings. In other words, you can still lose your home to foreclosure during the short sale process. The mere fact that your home is on the market won't stop your lender from pursuing delinquent payments, or even resorting to foreclosure. Time is, once again, of the essence when you fall behind on your house payments and decide to short sell. We need to act quickly and efficiently.

You Are Not in Control

The lender and its loan servicer are in charge of the transaction. You may think the offer to purchase your home is sterling, but the lender may feel otherwise. Even though you are the first to accept offers, those offers may be declined by the lender.

All That Work and No Money

Let's say that your best friend is putting her house on the market. Would you volunteer to do it for her? Would you take on the responsibility of cleaning, repairing, staging, hiring an agent and keeping the home immaculate for showings to get the home sold? Would you do so, knowing full well you wouldn't get a dime for all of your hard work?

That's the short sale, in a nutshell. You will do all the work while the lender gets all the money. It's a tradeoff that you must accept, unless you want to spend the entire time the home is on the market feeling cheated and resentful.

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