



The Short Sale - *A Primer For Homeowners*

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Bankruptcy and/or foreclosure are tough, emotional and embarrassing ways to lose your home. Plus, the effect on your credit can be devastating. Fortunately, there is an alternative if you find you can no longer afford the mortgage payments. It's called a short sale.

Simply put, a short sale is when a lender agrees to accept less than the total amount of a property owner's loan. It benefits both the lender and the property owner, since it avoids foreclosure. For the lender, it's a far less expensive option than foreclosure. For the seller, it's a way to satisfy the loan, avoid the court system and negative impact on their credit score.

The truth is, handling a short sale yourself is not always a pleasant transaction. That's if there actually is a transaction after all your time and effort.

It's important to note that not all lenders will accept a short sale offer. In some circumstances, it may make sense for a lender to pursue foreclosure, even though it's often a more costly process for them. Also, not all homeowners qualify for a short sale. The good news is Abraham and Sweeney has the proven experience needed for a smooth and successful sale. Plus, our team of real estate attorneys have built solid relationships with many lenders and buyers.

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Also important is that under the Mortgage Forgiveness Debt Relief Act of 2007, the IRS could consider debt forgiveness as income. In addition, there are no guarantees that a lender who accepts a short sale will not legally pursue a borrower for the difference between the amount owed and the amount paid, also known as a deficiency. The Abraham & Sweeney team can determine whether your loan qualifies for a deficiency judgment or claim.

Lenders have varying requirements and may demand that a homeowner submit a wide array of documentation. The following steps will give you a good idea of what to expect, should you choose to manage the short sale on your own.

• **Call the Lender**

You may need to make a half dozen, or more, phone calls before you find the person responsible for handling short sales.

• **Letter of Authorization**

Most lenders will not disclose any of your personal information without written authorization. There can be several players in the short sale game including:

- Real Estate Agent
- Closing Agent
- Title Company
- Attorney(s)
- Accountant(s)

A Letter of Authorization gives the lender gives permission to talk with these interested parties about your loan. The letter should include the following:

- Property Address
- Loan Reference Number
- Your Name
- The Date
- Your Agent's Name & Contact Information

• **Preliminary Net Sheet**

The Net Sheet is the accounting for the sale. It includes all the costs related to the sale, unpaid loan balances, outstanding payments due and late fees and real estate commissions. At the end of the transaction, there shouldn't be any cash going to you. If there is, you likely won't get an approval from your lender.

• **Hardship Letter**

The Hardship Letter is just that. It's the whys and hows about your situation. It's your plea to the lender to accept the short sale. Frankly, the sadder, the better. But, it's important that it's the truth and you can back up every word you write.

Lenders might be interested in profit, but they're not total monsters, in as much as they may seem to be to you right now. Most of them, anyway. A reasonable lender will understand the loss of a job, the current state of the economy, a costly medical problem and such. However, they tend to not be as understanding when it comes to blatant dishonesty.

• **Proof of Income and Assets**

Naturally, the lender will want to know your current financial picture. They want to be very clear that you cannot pay back any of the debt you're asking them to forgive. So, in as much as you need to list all your liabilities, be honest about assets, too. That includes all investments, cash, bank accounts, other real estate. Pretty much anything you have of value.

• **Copies of Bank Statements**

Gather up your statements for the past year, as a starting point. Be prepared to explain, in detail, anything that appears unusual. That might include, large withdrawals, writing an unusually large number of checks, unaccounted deposits, etc. The lender may go so far as to require you to account for each and every deposit in an effort to determine whether those deposits will continue.

• **Comparative Market Analysis**

The poor state of the economy has resulted in significant declines in real estate prices. If the reason that you cannot sell your home for enough to pay off the lender is due to these declines, this will need to be documented for the lender through a Comparative Market Analysis (CMA). Your real estate agent can prepare a CMA for you, which will show prices of similar homes that are active on the market, pending sales and solds from the past six months.

• **Purchase Agreement & Listing Agreement**

You've found a buyer. Great! Your lender will want all the details, including:

- A copy of the offer
- A copy of your listing agreement

Naturally, the lender will want to know your current financial picture. They want to be very clear that you cannot pay back any of the debt you're asking them to forgive.

Don't be surprised if the lender refuses to pay for certain items like a termite inspection or home protection plans. They may also want to renegotiate commissions.

If the negotiations go well and all your paperwork is in order, the lender will approve your short sale. Be prepared for the long haul. Short sale negotiations can easily take several months.

If all this seems a bit overwhelming, consider calling Abraham & Sweeney at 954.773.9916. We have years of experience negotiating and managing short sales. The relationships we've built with both lenders and buyers helps to ensure a smooth, successful process that, odds are, will be completed significantly faster than if you did it on your own.

Any real estate transaction is an important undertaking with loads of details along the way. A short sale is even more involved ... and delicate. Why risk your time and resources taking on your lender in an effort that may not bear fruit, when the professionals at Abraham & Sweeney have the know-how to put an effective plan together for you. You'll likely sleep better at night, too.

For more information, read our whitepaper – [The Short Sale Process](#).



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