

# How to Close a Short Sale

by Steve Stovall

First and foremost, a short sale is not a method of correcting a mistake in judgment made by a unfortunate homeowner in a difficult real estate market. All short sales must be qualified and approved by the loss mitigation department of the lender or lenders involved.

A qualified short sale must be justified with cause. A few examples of justifiable cause are:

- Illness of a borrower or co-borrower that qualified for the loan and because of such illness can not continue to make payments. This example would, of course, need to be accompanied by a doctor's statement of permanent or long term disability.
- Death of a co-borrower who originally qualified for the loan.
- Divorce or legal separation accompanied by legal documentation and attorney's correspondence.
- Involuntary loss of job or a significant modification in pay with documentation from employer and recent and past check stubs as verification.
- Illness of a family member wherein the borrower or co-borrower are the only ones who can provide care, again a doctor's statement would be required.

There are several other situations that would effect proper qualification. The important thing to remember is that they must be *qualified and proven in writing* to the lender or lenders.

Frivolous reasons will not be approved by the bank. For example, if you quit your job or were fired for just cause; refinanced or acquired a loan with an accelerating payment, high interest rate or negative amortization; ran your credit cards up to the max and can't afford all your monthly payments; bought a new car or other large purchase and

can't make all your payments; or decided to separate from a spouse or significant other co-mortgagor without a divorce or legal separation; you would probably not qualify for a short sale. The lender would likely foreclose, but each case is weighed on its own merit. You may want to contact the lender and explain your unique situation.

Once you've decided to move ahead with your short sale, it is very important to hire an agent with experience in the area. Your real estate agent and escrow officer can make or break a short sale transaction. Loss mitigation departments are overloaded with files, and your choice of representation will definitely help to smooth the process. Pick your agent in the same way you would pick an attorney or doctor if you had a serious matter facing you. An experienced agent will have a good working relationship with a good escrow officer, title officer, home inspector, etc. About 10 percent of the agents in the field today are doing about 90 percent of the business. It would be a good idea to use one of the better agents to help you affect a successful short sale.

Now that you've decided to move ahead with your short sale and you've selected an agent, you'll need to prepare a package for the lender. Included in your short sale package, it will be necessary to include, but not necessarily be limited to, the following items: 1) A letter from the borrower requesting the lender to consider your short sale. This letter should be prepared in a professional manner outlining the reasons why you feel that you are a qualified candidate and include all documentation that will help justify your cause. Keep the letter brief, to the point and as professional as possible. 2) Provide past two year's tax returns, all current bank statements for the most recent two months, and two recent pay check stubs from all borrowers. Also include any documentation from employers regarding pay modifications, pink slips, etc. 3) A letter from your agent regarding the current situation in your particular marketplace along with a current BPO (Broker's Price Opinion) showing comparables that are accurate within the past 90 days. Also include a copy of the MLS printout and a copy of your listing agreement and agency agreement. Your

agent should also include an estimated seller's net sheet showing the potential loss at time of projected closing. It would be a good idea for the seller to contact the lender via telephone prior to submission of the before-mentioned package.

The lender will likely hold on to the package pending submission of an offer acceptable to the borrower—be prepared to send a shadow package at that time.

Upon successfully negotiating an offer with a potential buyer, send the accepted offer along with a lenders pre-approval letter for the potential buyer ahead to the lender. If you have more than one loan on the property, send the above information to only the lenders who will be affected by the short sale. Also, be reasonable in your values, *i.e.* if your property is worth \$700,000 according to recent comparables—price it accordingly. Over- or underpricing your property will only complicate the issue. The lender will scrutinize and verify all information very carefully. Put together a fair and reasonable package, and you'll have a fair chance of successfully completing your qualified short sale transaction.

As a buyer of a short sale, you'll be at the mercy of all the intricacies of the short sale. It's important to remember that the lender is unlikely to allow any further loss than is necessary. There are very few "killer deals." Lenders are trying to not lose any more money than is necessary. Be prepared to pay a reasonable price, also be prepared to wait 60 to 90 days to close. Also, you could get to day 89 and the lender could deny the sale; you'll have no recourse. Have your agent pre-qualify the purchase, to the best of their ability, prior to submission of your offer. With good representation, common sense and a little luck, all parties can succeed in a short sale transaction. ♦

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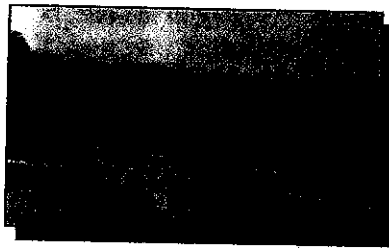
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