The Short Sale Option

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Today's housing market is driven by pre-foreclosures and foreclosures. When you can't make your monthly payments the bank will eventually start foreclosure procedures to take back the property. Some struggling homeowners stay in the home and don't pay the mortgage waiting for the bank to foreclose. This is the worst scenario you could choose. You are usually given three choices: Foreclosure; Deed the home back to the bank (Deed-in-lieu); or short sale.

If the bank forecloses, or the homeowner gives back the title, the homeowner will have a public record judgment against them for the full amount of the original balance, plus any unpaid interest and legal fees. After the judgment is entered, if the lender doesn't go

after the homeowner themselves, they often sell the bad debt to a collection agency of private investor that will hound the homeowner for their assets.

When a homeowner gets behind on their payments the bank attempts to re-qualify them for (a loan modification) or a reduced payment. If the homeowner's income does not support the minimum reduced payment the bank is willing to accept, they may encourage the homeowner to contact a Realtor and sell the house. "Short Sale" is the buzz word used for this process.

While the term short sale may be a little confusing, it's really simple. When the home must be sold, and the market value at which the home will be sold is much lower than the amount owed on the original mortgage, someone comes up short. The "Short" refers to the bank taking a payoff "short" of what is really owed.

Although it may seem foolish for a bank to accept up to half of what they loaned on a home as a payoff, it really is in their best interest in most cases. When the owner is not going to pay on the loan anyway, it's best to take market value, file an insurance claim, and write off the balance as bad debt or capital loss on their corporate books. It cost the lender more to hold on to a property while the owner is living there rent free. There is also greater risk to managing a vacant property that may be vacant and could be vandalized . Who should consider a short sale? If you own a home that is worth much less than you paid for it and you are struggling to make the payments, a short sale may help you start over. Sure, your credit will be damaged, but at least you'll have more money each month for necessities.

A short sale is far less damaging to a credit report. In a short sale, the old mortgage is paid off. The credit report will report will indicate "paid less than agreed" but nonetheless it's paid off (not a "Write Off") and the homeowner could buy a home again in 2 to 3 years if you have a minimum credit score and the income to qualify.

A short sale must be negotiated properly to "release the home owner from future liability" for the short fall, but most Realtors that handle foreclosures know how to do that. But, don't take anything for granted, if you are considering a short sale; be sure to ask for this important step to be taken by whomever negotiates your short sale. Even if you have to decline to close until a better settlement is reached.

If you have questions about Real Estate issues please email them to irptampabay@verizon.net and we may include them in the next article

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