

What a Seller Needs to Know Before Trying a Short Sale

A short sale is one of the ways that a homeowner can avoid having the lender foreclose on his home when the amount that he can sell his house for is not enough to pay off the mortgage. In the typical scenario, the homeowner has lost his job or his income has decreased to the point where he can't afford to make his monthly mortgage payments. The homeowner is asking the lender to allow him to sell his home for whatever he can get and the entire proceeds of the sale (less the real estate broker commission, grantor transfer fee, and attorneys' fees) are used to pay the lender. The lender agrees to accept whatever amount it receives as full payment of the mortgage. If the sales price is large enough for the seller to get any cash back at the closing, the short sale will not be allowed. The lender is calculating on whether it is better for the lender to approve a short sale or to foreclose on the property if the owner is not making monthly mortgage payments.

The homeowner, therefore, needs to understand that the lender has full control over the sales transaction. Once the house goes under contract, the lender gets to decide if the sales price is high enough for it to approve the sale. If the lender chooses to disapprove of the sales price, the seller cannot close on this particular deal.

The homeowner also needs to understand that he needs to show the lender that he can't pay the monthly mortgage. Part of the short sale process is showing the lender why you can't (not won't) pay your mortgage payment. You are more likely to get approval to go forward with a short sale if you have lost your job, if you have exhausted your assets in paying medical bills, if you are close to declaring bankruptcy, or if some other calamity has happened to you. You will also need to disclose to your lender that you have no assets that you can sell to pay the mortgage.

Your real estate agent will also need to show the lender how your home was priced. This is done by showing recent sales prices of comparable homes in your area.

There are many negative consequences to trying the short sale route. You should speak to an experienced real estate broker, lawyer, and accountant before you pursue a short sale so that you understand the ramifications.