

## **What You Need to Know About Short Sales: Is One Right For You?**

It is not a secret that the real estate market values have decreased dramatically. Your house may not be worth what you paid for it just a few years ago. If you are experiencing difficulties keeping current on your mortgage, there are various options for you. If you are in the market to sell your home and/or are being foreclosed upon, consider a short sale.

### **What is a Short Sale?**

A short sale is the lender accepting less than what is owed for full payment on a loan. If you borrow \$250,000 and sell your home for \$200,000 and the lender agrees to accept the \$200,000 as full payment on the loan, then that is a short sale.

### **Statistics**

Short Sales have become a necessary fact for many, many Americans. Most don't even realize this is an option instead of foreclosure. As a matter of fact, 1 out of 172 mortgages are in foreclosure today; 1 in 100 mortgages are on the foreclosure spectrum; and 1 in 11 people are late on their mortgage payments.

### **When is a short sale allowed?**

It is up to the lender. You must be in a hardship. Hardship is defined by the Lenders as circumstances out of one's control. Some examples would be: job loss, job relocation, family illness, divorce, significant increase of mortgage payment due to an interest adjustment, and an unforeseen increase in living expenses. One of the first steps in applying for a short sale is the hardship letter. You must explain why you are unable to no longer live up to your financial obligations. The point is that a lender will need solid reasons to allow a short sale.

### **Where do I start?**

First of all, it is more likely than not that the Lender does NOT want your house and will be willing to consider a short sale. In today's market, Lenders are flooded with inventory of homes. You will have to prove your hardship. You should do a monthly budget which proves why you can't afford your payment and other documents required by your lending institution.

### **Should I continue to make my mortgage payments?**

The short sale process is for those who are unable to make their loan payments, not people who would rather spend their money elsewhere. Contact us to set up a consultation to discuss your options including credit counseling or bankruptcy, if need be. Once you stop making loan payments, you will receive a delinquency notice and technically enter the "pre-foreclosure" period. This is the period that your legal counsel will contact your lender and their Loss Mitigation Department.

### **How will this affect my taxes and credit?**

The Mortgage Debt Forgiveness Act of 2007 allows gains on a short sale to be forgiven up to \$1 million on a primary residence if sold in 2007 through 2010. Believe it or not, if you sell your \$250,000 home for \$200,000 and the lender accepts that amount for full payment, it is considered a gain of \$50,000. Prior to the Mortgage Debt Forgiveness Act of 2007, you would have to pay income tax on that gain. On the other hand, if you have refinanced and used that money to pay off debt or purchase items, the \$50,000 will be reported as income. Of course you should always consult your accountant for details and eligibility. A successful short sale will bring your credit score down 80-100 points, whereas a foreclosure will bring your credit score down 200-250 points.

### **When can I apply for another loan?**

Typically, if the short sale is successful (meaning the short sale has closed and the property is sold) you can expect to be eligible for another loan in approximately 18 months with a reasonable interest rate. If you were to be foreclosed upon, the expected wait before you can apply for another loan would be 3 years. Seacoast Law & Title is currently partnered with a credit repair company that will assist you in rebuilding your credit.

### **Bottom Line!**

Don't despair! If you have exhausted all avenues to try to make your mortgage payments and are unable to do so, then it's time to contact the attorneys at Seacoast Law & Title and inquire about the benefits of a short sale or any other option that is available to you in these tough economic times.