



What is a short-sale?

A short-sale is a type of distressed property sale. It is not a traditional re-sale of a property. In a short-sale, a lender agrees to accept a payoff that is less than what they are owed. In this type of transaction, the lender comes up short (hence the term short-sale).

Ironically, short-sales usually take a lot longer than a traditional sale. Some real estate professionals joke that they should have been named “long-sales”. It is not unusual for a short-sale to take up to 3 months AFTER an offer has been accepted by the seller.

The reason that it takes so long is because the sale requires 3rd party approval from the lender(s). If a property only has one lien on it, it makes the short-sale process much easier. This is because you only have to deal with one lien holder.

Often times, there are multiple liens on the property. So, you have to get written approval from each lien holder involved. These types of short-sales are more difficult (but not impossible). All short-sale properties have a 1st lien, which is usually the primary mortgage. Some properties also have a 2nd lien that was a home equity line of credit (HELOC). In these types of scenarios, you have to negotiate with the 2nd lien holder as well. On the bright side, many 2nd lien holders will settle for as little as 6% of the debt.

If you are considering purchasing a short-sale property, I would recommend researching how many liens are currently on the property. Your real estate agent will be able to do this research for you. If a property has multiple liens on it, the short-sale process will probably take longer. So the name of the game is patience. There are pros and cons with pursuing a short-sale property as a buyer. The main downside is that the process takes a long time and it can be frustrating. The main benefit to purchasing a short-sale is that your patience will usually be rewarded with a great deal. **Short-sales typically sell for 10% to 20% below market value!**





Benefits for a Seller:

A successful short-sale is really a win-win situation for all parties involved. The seller gets to avoid having a foreclosure on their credit report for the next 7 to 10 years. In many cases, the lender may also forgive the deficiency debt. There was actually a law that passed that made sure that the forgiven debt was not counted as income for tax purposes. But this law is set to expire at the end of 2012.

FYI: The Mortgage Forgiveness Debt Relief Act Expires in 2012...

If you are thinking about selling your primary residence, and you are upside-down in your mortgage, do it in 2012 or forever hold your peace...after this act expires, the forgiven debt will be viewed as taxable income (doh!)

Benefits for a Buyer:

If a buyer is patient, they can pick up a great home at a nice discount. Generally speaking, short-sale homes are in better condition than your average foreclosure. Foreclosures have usually sat vacant for many months. They may have been vandalized too. However, the short-sale process can be frustrating. The bank can take a long time to make a decision. And many times, the bank will ask for more money from the buyer, seller, or both to make the deal work. However, it will all be worth it in the end when you get a home at 10% to 20% below market value.

Benefits for a Lender:

Although a lender would rather not accept less than what they are owed, a short-sale beats a foreclosure any day. Today's unsold short-sales are tomorrow's foreclosures. The lender knows that if the property goes to foreclosure, they will have to sell the property at a steeper discount when they put it back on the market. Also, the time value of money is important. Every month that a lender holds a property in its portfolio, they are losing money.

Currently, short-sales represent a significant percentage of the total real estate transactions. In some areas, They may account for 40% of all sales. This number will probably increase over the next few years. Also, many sellers are now walking away from their mortgage obligation. In some cases, they are really upside down in their mortgage because they bought right before the real estate market crashed. In some areas, real estate values have been cut in half! Some owners feel that their property will take 20 years to recover its value. So, they figure it makes more sense to walk away from the mortgage and start over.



Now let's take a closer look at the short-sale process from a seller's point of view:

A short-sale requires a ton of paperwork from the seller(s). Here is a list of documents that are normally required for a short-sale. This is actually a list of documents from a recent Bank of America short-sale that I did. Most lenders ask for similar documentation.

1. Most current 2 month's of Bank Statements
2. Most current 2 month's of Pay stubs
3. Last two years of tax returns.
4. A detailed Hardship Letter
5. Borrower Financial Information. 1126 Form
6. Request for Transcript of Tax Return – 4506 T Form
7. Freddie Mac Short Sale Addendum form
8. Executed Listing Agreement
9. Executed Purchase Contract with Proof of Funds for the Buyer
10. Third Party Authorization Form
11. An estimated HUD Settlement statement
12. An “arm's length” contract addendum with notarized signatures from the seller and buyer.

As you can see, a short-sale requires a lot of paperwork. Some of the above items will be handled by your real estate agent. At the end of this report, I have included sample forms that are needed for a short-sale. You will notice that number 4 calls for a detailed hardship letter. A hardship letter is the seller's written explanation of why they can not afford to pay the mortgage. It should explain what caused your financial distress (i.e. loss of employment, medical issues, etc.) I think that handwritten letters have more impact. This letter should be in the seller's own words. Do not try to find a hardship letter online. Don't ask your real estate



agent to write one for you. You need to come across genuine and speak from the heart. We all go through rough times in our lives. So there is no reason to hold back when writing the hardship letter.

Anatomy of a short-sale

- 1) The seller lists the property with a local real estate agent that has experience with short-sales. (like myself ☺) The real estate agent will analyze recent market activity in your immediate area. It is critical to get the price right the first time. Most buyers expect to get a discount on a short-sale. But, if you price the home too low, the bank will probably reject your offer. So you have to walk a fine line. This is where your real estate agent's experience proves invaluable. I would probably recommend pricing the property 10% below the average comps in the area.
- 2) The seller contacts his lender and informs them that the home is on the market.
- 3) The Real Estate Agent markets the property and eventually gets a written offer from a qualified buyer. (Depending on the local market, this can take anywhere from 3 to 6 months.)
- 4) The seller accepts the offer. But it is contingent on 3rd party approval from the lender. The seller and buyer will also probably execute a short-sale addendum.
- 5) Seller secures an attorney and informs them that they have an accepted offer. The attorney will order title for the property. This is done to make sure the seller can convey a clean title to the buyer. This is also a good time for the buyer to secure an attorney as well.
- 6) The seller should make sure that their water bill is current. In order to sell a property in Cook County, you can not owe a single dollar to the Department of Water.
- 7) The Realtor submits the offer to the bank. The bank will review the offer.
- 8) In two to three weeks, the bank will send an appraiser to the property.
- 9) During this time frame, the bank will also ask for any missing paperwork from the seller.
- 10) In another two weeks or so, the bank should be ready to make a counter offer. If the home was priced right to begin with, the counter offer should not be too much higher than the original offer amount. It is not unusual for the bank to also ask for a promissory note or cash at closing from the seller. If the seller is in financial hardship, it is unlikely that they will be able to contribute much to the deal. If this is the case, I highly recommend writing another hardship letter explaining why you can't contribute cash to the deal. Those handwritten letters go a long way if they are genuine.



Also, keep in mind, that the seller will also have some closing costs that the bank will not pay for. So, most sellers will have to contribute about \$1,000 to pay for a few closing costs.

- 11) If you have a 2nd lien on the property, your agent will also be negotiating a short payoff with them. In many cases, the 2nd lien holder will accept 6% to 10% of the loan balance as a payoff. If the buyer submitted a solid offer, and the property was priced right to begin with, there will be enough funds to pay off both liens.
- 12) Assuming that every thing goes well, your real estate agent will receive a written approval from the lender(s). By this time, a couple of months may have elapsed. Hopefully, you have not lost your buyer. Sometimes buyers lose patience with the process, and they back out of the deal. However, all is not lost. You now have a vital piece of information... You know how much the lenders are willing to accept. When your real estate agent puts it back on the market, he or she will know exactly at what price to list it at. Also, when other agents realize that your short-sale was approved at a certain price point, they will mention it to their prospective buyer clients. Unfortunately, some agents advise their buyer clients to stay away from short-sales. That's because they have probably been tied up in a short-sale for several months only to find out that it was denied by the bank. Since they had a bad experience in the past, they speak negatively about short-sales with their clients. But, they are much more likely to show a short-sale if it has been approved already.
- 13) At this point, a closing date has probably been set. In two to three weeks, this short-sale will be done and you can get on with your life!





2011 Sales Analysis for Short-sales in Bronzeville Chicago

We can gain a better understanding of short-sales by analyzing transactions that successfully closed. I did a custom data analysis of the Bronzeville neighborhood in Chicago, Illinois for 2011. According to the MRED MLS system, there were 59 short-sale transactions for the 12 month period ending 12/25/2011. That is an average of five closed short-sale transactions per month! This number will probably increase in 2012.

ANALYSIS OF BRONZEVILLE SHORT-SALES IN 2011

PROPERTY TYPE	TOTAL UNITS SOLD	AVG. ASKING PRICE	AVG. SELLING PRICE	AVERAGE DISCOUNT	# OF DAYS IT TOOK TO CLOSE AFTER AN OFFER WAS ACCEPTED BY SELLER
CONDO	32	\$95,800	\$82,188	14%	107 Days
SINGLE FAMILY	13	\$225,846	\$180,523	20%	100 Days
MULTI-UNIT	14	\$149,226	\$135,750	9%	100 Days

Here are a few things that jump out at me:

- Most of the short-sales are happening with Bronzeville condos. I expect this trend to continue.
- The biggest discounts are being realized with Single Family Homes.
- The amount of time it takes to get the short-sale approved is pretty consistent across all property types. It takes about 3 months for the bank to approve the average short sale. And this is AFTER a written offer has been submitted by a qualified buyer.



On the following pages, you will find some sample forms that may be required for your short-sale. Although every bank's short-sale process is unique, most lenders require basically the same forms to get it done. If you would like a FREE evaluation of your specific situation, please contact me. I have experience with short-sales, and I have helped distressed homeowners avoid foreclosure.

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Freddie Mac Loan Number _____

BORROWER		CO-BORROWER	
BORROWER'S NAME		CO-BORROWER'S NAME	
SOCIAL SECURITY NUMBER	DATE OF BIRTH	SOCIAL SECURITY NUMBER	DATE OF BIRTH
HOME PHONE NUMBER WITH AREA CODE	(BEST TIME TO CALL)	HOME PHONE NUMBER WITH AREA CODE	(BEST TIME TO CALL)
WORK PHONE NUMBER WITH AREA CODE	(BEST TIME TO CALL)	WORK PHONE NUMBER WITH AREA CODE	(BEST TIME TO CALL)
CELL PHONE NUMBER WITH AREA CODE	(BEST TIME TO CALL)	CELL PHONE NUMBER WITH AREA CODE	(BEST TIME TO CALL)
MAILING ADDRESS			
PROPERTY ADDRESS (IF SAME AS MAILING ADDRESS, JUST WRITE SAME)			EMAIL ADDRESS
Number of Dependents:	Do you occupy the property? Yes <input type="checkbox"/> No <input type="checkbox"/>	Is it rental property? Yes <input type="checkbox"/> No <input type="checkbox"/>	Is it leased? Yes <input type="checkbox"/> No <input type="checkbox"/>
		If you have a lease agreement, please provide a copy.	
Is the property listed for sale? Yes <input type="checkbox"/> No <input type="checkbox"/> If yes, please provide a copy of the listing agreement.		Have you contacted a credit-counseling agency for help? Yes <input type="checkbox"/> No <input type="checkbox"/> <u>If yes, please complete counselor contact information below.</u>	
Agent's Name:		Counselor's Name:	
Agent's Phone Number:		Counselor's Phone Number:	
Agent's Email:		Counselor's Email:	
Do you receive, and pay, the Real Estate Tax bill on your home or does your lender pay it for you? I do <input type="checkbox"/> Lender does <input type="checkbox"/> Are the taxes current? Yes <input type="checkbox"/> No <input type="checkbox"/> If you pay it, please provide a copy of your tax statement.		Do you pay for a hazard insurance policy? Yes <input type="checkbox"/> No <input type="checkbox"/> Is the policy current? Yes <input type="checkbox"/> No <input type="checkbox"/> If you pay it, please provide a copy of the policy.	
Have you filed for bankruptcy? Yes <input type="checkbox"/> No <input type="checkbox"/> If yes: Chapter 7 <input type="checkbox"/> Chapter 13 <input type="checkbox"/> Filing Date: _____			
Has your bankruptcy been discharged? Yes <input type="checkbox"/> No <input type="checkbox"/> If yes, please provide a copy of the discharge order signed by the court.			

INVOLUNTARY INABILITY TO PAY

I (We), _____, am/are requesting that the Federal Home Loan Mortgage Corporation (Freddie Mac) review my/our financial situation to determine if I/we qualify for a workout option.

I am having difficulty making my monthly payment because of financial difficulties created by *(Please check all that apply)*:

- | | | | |
|--|---|--|--------------------------------|
| <input type="checkbox"/> Abandonment of Property | <input type="checkbox"/> Excessive Obligations | <input type="checkbox"/> Military Service | <input type="checkbox"/> Other |
| <input type="checkbox"/> Business Failure | <input type="checkbox"/> Fraud | <input type="checkbox"/> Payment Adjustment | |
| <input type="checkbox"/> Casualty Loss | <input type="checkbox"/> Illness in Family | <input type="checkbox"/> Payment Dispute | |
| <input type="checkbox"/> Curtailment of Income | <input type="checkbox"/> Illness of Mortgagor | <input type="checkbox"/> Property Problems | |
| <input type="checkbox"/> Death in Family | <input type="checkbox"/> Inability to Rent Property | <input type="checkbox"/> Title Problems | |
| <input type="checkbox"/> Death of Mortgagor | <input type="checkbox"/> Incarceration | <input type="checkbox"/> Transferring Property | |
| <input type="checkbox"/> Distant Employment Transfer | <input type="checkbox"/> Marital Difficulties | <input type="checkbox"/> Unemployment | |

I believe that my situation is: Short term (under 6 months) Long term (over 6 months) Permanent

I want to: Keep the Property Sell the Property

Please provide a detailed explanation of the hardship on a separate sheet of paper.

If there are additional Liens/Mortgages or Judgments on this property, please name the person(s), company or firm and their respective telephone numbers.

	\$	
Lien Holder's Name	Balance / Interest Rate	Phone Number (WITH AREA CODE)
	\$	
Lien Holder's Name	Balance / Interest Rate	Phone Number (WITH AREA CODE)

Before mailing, make sure you have signed and dated the form and attached appropriate documentation.

EMPLOYMENT

BORROWER- EMPLOYER'S ADDRESS & PHONE #	HOW LONG?	CO-BORROWER- EMPLOYER'S ADDRESS & PHONE #	HOW LONG?
Monthly Income - Borrower		Monthly Income - Co-Borrower	
Gross Wages / Frequency of Pay	\$	Gross Wages / Frequency of Pay	\$
Unemployment Income	\$	Unemployment Income	\$
Child Support / Alimony*	\$	Child Support / Alimony*	\$
Disability Income/ SSI	\$	Disability Income/ SSI	\$
Rents Received	\$	Rents Received	\$
Other	\$	Other	\$
Less: Federal and State Tax, FICA	\$	Less: Federal and State Tax, FICA	\$
Less: Other Deductions (401K, etc.)	\$	Less: Other Deductions (401K, etc.)	\$
Commissions, bonus and self-employed income	\$	Commissions, bonus and self-employed income	\$
* * * * * ALL INCOME NEEDS TO BE DOCUMENTED * * * * *			
Paystub must be most recent date with year to date information.			
Total (Net income)		Total (Net income)	
\$		\$	
Monthly Expenses		Assets	
Other Mortgages / Liens	\$	Type	Estimated Value
Auto Loan(s)	\$	Checking Account(s)	\$
Auto Expenses / Insurance	\$	Saving / Money Market	\$
Credit Cards / Installment Loan(s) (total minimum payment for both per month)	\$	Stocks / Bonds / CDs	\$
Health Insurance (not withheld from pay)	\$	IRA / Keogh Accounts	\$
Medical (Co-pays and Rx)	\$	401k / ESPO Accounts	\$
Child Care / Support / Alimony	\$	Home	\$
Food / Spending Money	\$	Other Real Estate	#
Water / Sewer / Utilities / Phone	\$	Cars	#
HOA/Condo Fees/Property Maintenance	\$	Life Insurance (Whole Life not Term)	\$
Life Insurance Payments (not withheld from pay)	\$	Other	\$
Total	\$	Total	\$

* Alimony, child support or separate maintenance income need not be revealed if the Borrower or Co-borrower does not choose to have it considered for repaying this loan.

I agree as follows: My lender may discuss, obtain and share information about my mortgage and personal financial situation with third parties such as purchasers, real estate brokers, insurers, financial institutions, creditors and credit bureaus. Discussions and negotiations of a possible foreclosure alternative will not constitute a waiver of or defense to my lender's right to commence or continue any foreclosure or other collection action, and an alternative to foreclosure will be provided only if an agreement has been approved in writing by my lender. The information herein is an accurate statement of my financial status. I consent to being contacted concerning my Mortgage at any cellular or mobile telephone number I may have. This includes text messages and telephone calls to my cellular or mobile telephone.

Submitted this _____ day of _____, 20_____

By _____
Signature of Borrower

By _____
Signature of Co-Borrower

Before mailing, make sure you have signed and dated the form and attached appropriate documentation.

FREDDIE MAC SHORT SALE ADDENDUM

Seller: _____

Buyer: _____

Seller: _____

Buyer: _____

Seller: _____

Buyer: _____

Seller's Agent: _____

Buyer's Agent: _____

Escrow Closing Agent _____

This Addendum to Contract is entered into and is effective as of ___/___/___ by and between, Seller(s), Buyer(s) and Agent (hereinafter referred to as "the Parties") and shall be deemed to amend, modify and supplement that certain Contract Dated ___/___/___ by and between Seller(s) and Buyer(s) (the "Contract").

NOW, THEREFORE, in consideration of the mutual benefits to be derived from this Short Sale Addendum and of the representations, warranties, conditions and promises hereinafter acknowledged, Sellers, Buyers and Agent hereby agree as follows:

1. The Parties acknowledge and agree that the Subject Property is being sold in "**as is**" condition.
2. The Parties acknowledge and agree that the Subject Property must be sold through an Arm's Length Transaction. An "Arm's Length Transaction" is a transaction between parties who are independent of one another, and unrelated by family, marriage or commercial enterprise, other than the purchase and sale of the mortgaged premises between the Buyer(s) and the Seller(s) that is the specific subject of the proposed Short Sale.
3. The Parties acknowledge and agree that there are no agreements, understandings or contracts between the parties that the Seller will remain in the mortgaged premises as a tenant or later obtain title or ownership of the mortgaged premises, except to the extent that the Seller is permitted to remain as a tenant on the mortgaged premises for a short term, as is common and customary in the market but no longer than ninety (90) days, in order to facilitate relocation.
4. The Parties acknowledge and agree that neither the Seller nor Buyer will receive funds or commissions from the sale of the mortgaged premises.
5. The Parties acknowledge and agree that there are no agreements, understanding or contracts relating to the current sale or subsequent sale of the mortgaged premises that have not been disclosed.
6. Each Signatory understands, agrees and intends that the Servicer and Investor are relying upon the statements made in the affidavits as consideration for the reduction of the payoff amount of the mortgage and agreement to the sale of the mortgaged premises;
7. The Parties acknowledge and agree that this addendum will survive the closing of the transaction;
8. The Parties acknowledge and agree that a misrepresentation may subject the responsible party to civil and/or criminal liability.
9. The Parties acknowledge and agree that this Short Sale transaction will not constitute appraisal fraud, flipping, identity theft and/or straw buying.
10. The Parties acknowledge and agree that the Seller may cancel this agreement prior to the ending date of the contract period without advanced notice to the broker, and without payment of a commission of any other consideration, if the property is conveyed to the mortgage insurer or the mortgage holder.
11. The Parties acknowledge and agree that under no circumstances will the sales contract be assignable.
12. The Parties agree that this Addendum together with the Sales Contract shall constitute the entire and sole agreement between the Parties with respect to the Sale of the Subject Property and supersede any prior agreements, negotiations, understandings, optional contracts, or other matters whether oral or written, with respect to the subject matter hereof. No alternations, modifications, or waiver of any provision hereof shall be valid unless in writing and signed by Parties, FHA, VA, government agencies, any Investor, and/or mortgage holder, hereto.

13. Each signatory agrees to indemnify the Servicer and Freddie Mac for any and all loss resulting from any negligent or intentional misrepresentation made in the affidavit including, but not limited to, repayment of the amount of the reduced payoff of the Mortgage;

IN WITNESS WHEREOF, the Sellers have executed

this Addendum as of the date first written above.

Seller: _____

Seller: _____

Seller: _____

Seller's Agent: _____

Escrow Closing Agent: _____

STATE OF : _____

COUNTY OF: _____

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME ON _____

Notary's Official Signature

My Commission Expires on: _____

IN WITNESS WHEREOF, the Buyers have executed
this Addendum as of the date first written above.

Buyer: _____

Buyer: _____

Buyer: _____

Buyer's Agent: _____

STATE OF : _____

COUNTY OF: _____

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME ON _____

Notary's Official Signature

My Commission Expires on: _____