

Short Sales for sellers

During the last 3-5 years loans have been made in amounts that become to difficult for borrowers to repay. Some of these borrowers may not be able to pay their mortgage obligations. When a borrower is no longer in a position to make the mortgage payments, is facing foreclosure and the current market value of the property (including escrow costs) is less than the loan on the property, the borrower may consider a short sale. This could save the lender the expenses of foreclosure proceedings. From the borrower's position the short sale prevents having the foreclosure on the borrower's credit history and releases the borrower from obligation that he or she can no longer afford.

A short sale is a sale transaction subject to a lender's approval in which the lender consents to a sale of the home for less than what is owed on the note and accepts the proceeds in full payment of the loan amount. Ideally before applying for a short sale, the seller should have a ready buyer and all the paper work prepared to present to the lender. The buyer of the property should be prepared for a much longer escrow to purchase the property.

There are options which should be considered by the borrower before opting for a short sale.

Contacting the lender the borrower may be able work out a way to modify the original loan. Some options are renegotiating interest rate, monthly payment amounts, maturity date. After the borrower is in default, the borrower voluntarily delivers title to the lender as payment of the mortgage debt, called a deed in lieu of foreclosure.

A short sale is a transaction in which a lender allows the real property securing the loan to be sold for less than the remaining mortgage amount due and accepts the proceeds as full payment of the loan. A lender may accept a short sale when the borrower is in severe financial straits and market conditions make a short sale the best choice to mitigate the lender's damages. Like a deed in lieu of foreclosure this saves the lender the costs of foreclosure and the borrower avoids having a foreclosure on their credit report.

Borrowers should be aware that lenders will report the short sale for less than the full balance which will show up on the borrower's credit report. The deficiency between the loan amount and the sale amount can be taxed as ordinary income. It is imperative the borrower seek the advice of a real estate attorney and a tax professional before considering a short sale.