

Definition of a Short Sale

- ▶ A short sale occurs when the contracted sales price of a property does not result in the mortgage loan being paid in full
- ▶ The mortgage company must *approve* a seller for a short sale and the mortgage company must agree to accept less (short) than what it is owed to allow the sale to proceed
 - ▶ How do you determine if the contracted price will result in a short sale?

▶ Sales Price	\$195,000
▶ Closing Fees	<u>-\$15,600 (8%)</u>
▶ Net Amount	\$179,400
▶ Mortgage Payoff	\$230,000
▶ Net Amount	<u>-\$179,400</u>
▶ Shortfall	\$50,600

Requirements for a Short Sale

- ▶ Two items are needed for a homeowner to approved for a short sale
 - ▶ Current market value of a property is less than what a seller owes the lender to satisfy their debt obligation in full
 - ▶ Lenders require some type of *demonstrated* homeowner financial hardship

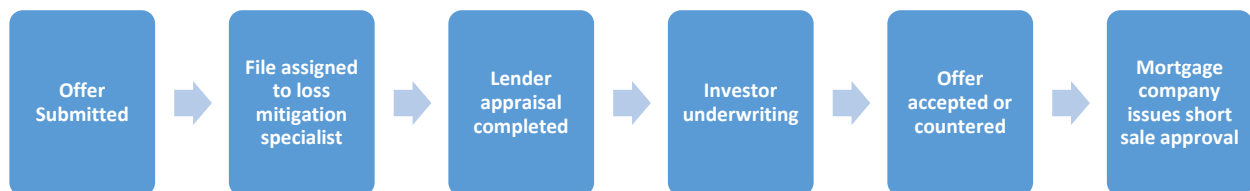
Homeowner Benefits of a Short Sale

- ▶ Avoid Foreclosure
- ▶ No need to file Bankruptcy
 - ▶ If previously filed can use short sale to get the deed to the property out of homeowner's name
- ▶ Lender will pay all of borrower closing fees
 - ▶ Realtor commission
 - ▶ Property transfer tax
 - ▶ Recordation fees
 - ▶ Attorney/Title company fees
- ▶ Mortgage companies typically report the debt to the credit bureaus as *settled for less than full amount* or *settled as agreed*
 - ▶ Not a long term impact on credit report
- ▶ Mortgage companies typically waive pursuit of future collection activity on the short fall amount
 - ▶ Known as *forgiven debt*
- ▶ Mortgage companies do not want to own property and would rather work out a short sale solution with their borrowers

Foreclosure Timeline

- ▶ Exact timeline can vary state to state and by each mortgage company's procedures
 - ▶ Many variables affect when a mortgage company decides to start foreclosure proceedings for a delinquent borrower
 - ▶ Pre-foreclosure 0-6 months of missed mortgage payments
 - ▶ Collection activity
 - ▶ Foreclosure 6 – 12 months of missing mortgage payments before a sheriff sale is held
 - ▶ *Homeowner can remain in home until a mortgage lender repossesses property at a sheriff's auction*

Short Sale Review Steps



Credit Score Impact to Homeowner

- ▶ Homeowner typically experiences some negative impact to their credit score due to mortgage payment delinquency
 - ▶ Credit scores are very subjective and may vary depending on a homeowner's credit exposure
 - ▶ Homeowners can begin to immediately repair their credit score once short sale is completed
- ▶ Homeowners may be able to qualify for a new mortgage in approximately 2 1/2- 3 years if credit repaired
- ▶ Because short sale reports as "settled debt" not a long term impact versus a foreclosure resulting in a sheriff sale and a *judgment* on credit report

Tax consequences of a Short Sale

- ▶ Any debt *forgiven* by a mortgage company results in an IRS form 1099-C being issued which *may* be considered as taxable income for the homeowner

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Closing Fees	<u>-\$15,600 (8%)</u>
Net Amount	\$179,400
Mortgage Payoff	\$230,000
Net Amount	<u>-\$179,400</u>
1099-C Amount	\$50,600

- ▶ 1099-C issued for forgiven debt can be treated differently for primary residences versus investment properties
 - ▶ * Congress renewed the Mortgage Debt Services Relief Act of 2007 through 2025
 - ▶ Homeowners should consult with an accountant prior to pursuing a short sale

CK Capital Management Corporation recommends that all potential clients consult with an attorney and/or accountant before proceeding with a short sale. We make no representations or warranties as to the acceptance of a short sale by the client's mortgage company. CK Capital Management is not affiliated with the government or any government programs. Please feel free to contact us with any questions (800) 991-6219.

