



Real Estate Reality Mortgage Troubles Might Be Resolved with a Short Sale or Other Loan Relief Alternatives

- Debbie Yost

Lenders across the country are eyeing increasing amounts of mortgage delinquencies. For the first time in my 26 years in real estate business I'm seeing lenders changing their procedures to help homeowners avoid foreclosure. I don't mean to suggest that lenders will ignore missed payments, especially if the homeowner is communicating regularly and honestly with them about their financial situation. Lenders are in business to make a profit. The average foreclosure costs a lender \$50,000 in lost interest, late fees and costs, as well as lost property value. Foreclosures hurt neighborhood values. No one wins when a property goes into foreclosure.

Many homeowners who purchased their property at the height of the market in the past few years and financed the majority of the purchase price find themselves in a pinch. Rising interest rates on adjustable rate loans are increasing monthly payments. The recent downturn of soaring property values back to more normal levels created situations where the loan balance may exceed the property value. If a buyer is willing to purchase the property at today's market value the seller may choose to request a "short sale" from the lender. This term reflects a lender's willingness to accept a "payoff" of less than the full mortgage balance.

Short sales require a tremendous amount of work and documentation and less than 1% of lenders will agree to a short sale without a specific buyer under contract to purchase the property. There are several steps involved prior to the lender agreeing to these terms:

Verifying and documenting a hardship: A home seller may experience a hardship, but the reason must qualify and be documented. Typical "acceptable" hardships include but are not limited to: job loss, employment, reduced family income, divorce, separation, medical bills, excessive debt, death of a spouse or family member, unemployment, rent increase, business failure, job relocation, illness, damage to property, military service, or incarceration. As stressful as it may seem to do so, the seller will have to provide documentation to prove the hardship is real.

Preparing the document package for the lender: Proving the hardship is no less work than the original qualifying for the loan. Documents the lender will want to review include: personal financial statement; two years of income tax returns; two current pay stubs; two current bank statements; a real estate broker's price opinion itemizing comparable sales, competing listings, expired listings, with photos of each; a data sample of the community showing median and average price with the percentage of change in specific price ranges; an appraisal, a HUD statement itemizing all costs including all required repairs; a purchase contract; firm loan approval for the buyer; and a preliminary title report.

Specific language showing that the sale is contingent upon the lender approving a short sale should be included in the purchase contract. If the lender approves a short sale, escrow must close within their specified time period; seldom will they allow a closing extension.

To add insult to injury, the home seller will face tax consequences from a short sale. For example, if the lender accepts \$25,000 less than the mortgage balance, the seller will receive an IRS 1099 form showing income of \$25,000. The IRS considers this to be taxable "debt relief" in the same way as salary. Anyone considering a short sale should consult with their accountant and/or financial advisor.

The short sale is one of the alternatives available to homeowners who can demonstrate and document a real hardship. Other loan relief alternatives may be agreed upon if the homeowner wants to continue to live in the property rather than sell it.

- 1. Forbearance agreement**, which is an agreement to temporarily accept less than the full monthly payment for a specified period of time. This may be used when a borrower can show documentation of a source of funds arriving in a certain time period, such as a tax refund, a bonus, a settlement, etc.
- 2. Repayment plan** gives the borrower a specific time period to repay the amount owed.
- 3. Reinstatement** occurs when the borrower repays the delinquent amount of money owed to the lender. A reinstatement is often combined with forbearance.

Loan modification permanently modifies one or more of the original terms of the loan to make the monthly payment more affordable. This could include adding the missed payments to the existing loan balance, reducing the interest rate, converting an adjustable rate mortgage to a fixed rate or extending the term of the loan.

Deed in lieu of foreclosure is a voluntary transfer of the property to the lender and it is the lender's option to accept the property in this way. Unfortunately, many borrowers don't realize that this option affects their credit in the same way as a foreclosure.

All of the options mentioned above require communication and full disclosure with the lender. Financial distress often results in folks ignoring the bills and legal notices from the lender. If you or someone you know is in a situation where one or more of these options seem like an answer, the first step is to contact the lender to explain the situation clearly. If the person on the other end of the phone doesn't seem to care, don't give up. Continue to seek more assistance, and ask for their supervisor until you find someone who can assist you. If you are placing your home on the market for sale with a Realtor, hire someone you feel you can trust with the facts of your mortgage situation. If you are behind on your payments or have additional loans, give the Realtor the facts so they can advise you properly and assist you with the market information your lender will require.

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