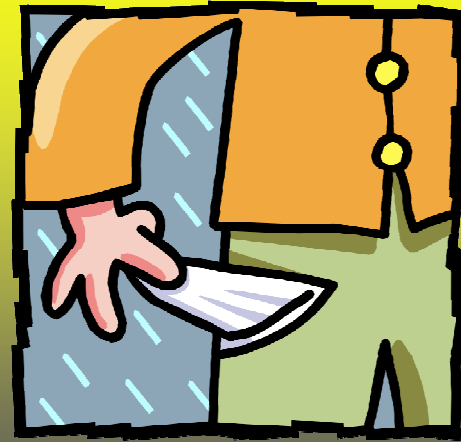


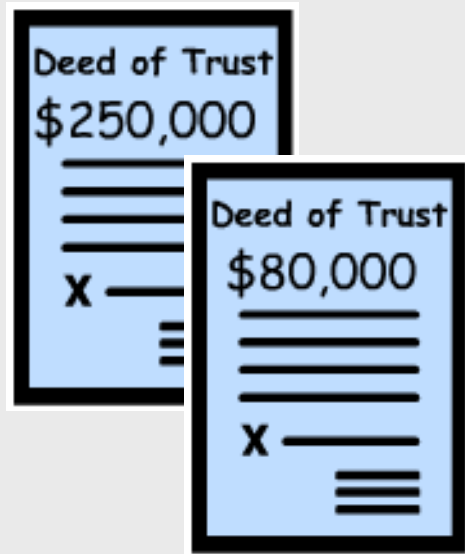
# **Understanding Short Sales**



**Security Title**  
**Sue Reagan**

# What is a Short Sale?

A sale in which the outstanding obligations (loans) against the real estate are greater than the amount for which the property can be sold.



Loans: \$330,000



Property Value: \$300,000

# Causes of Drop in Market Value



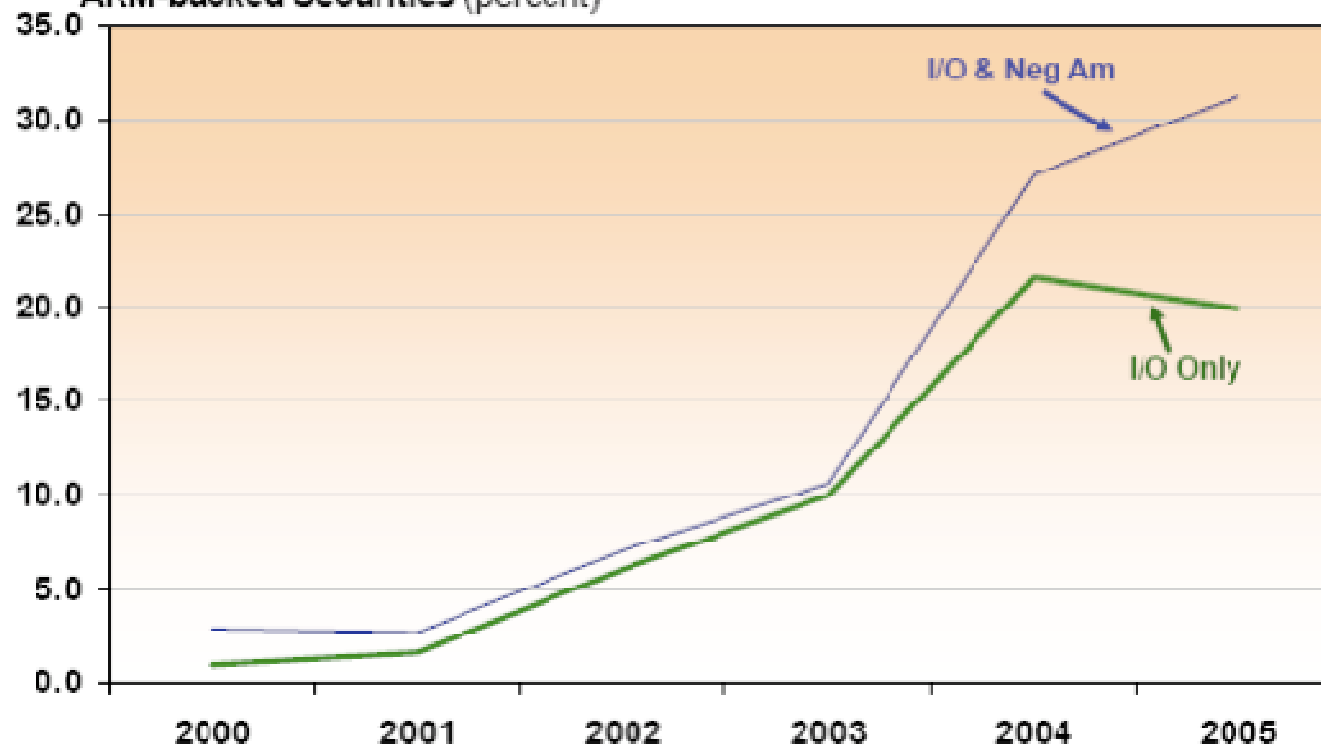
- Recession, higher interest rates, higher monthly payments.
- Fire, flood, or other damage.
- Changing character of neighborhood
- Improper maintenance



As a result, one or more of the lien-holders might be willing to accept a “Short Payoff” – an amount less than the full amount owed.

## Non-traditional ARMs Have Grown Rapidly

**Interest-Only & Negative Amortization Share of Originations in Private-Label ARM-backed Securities (percent)**

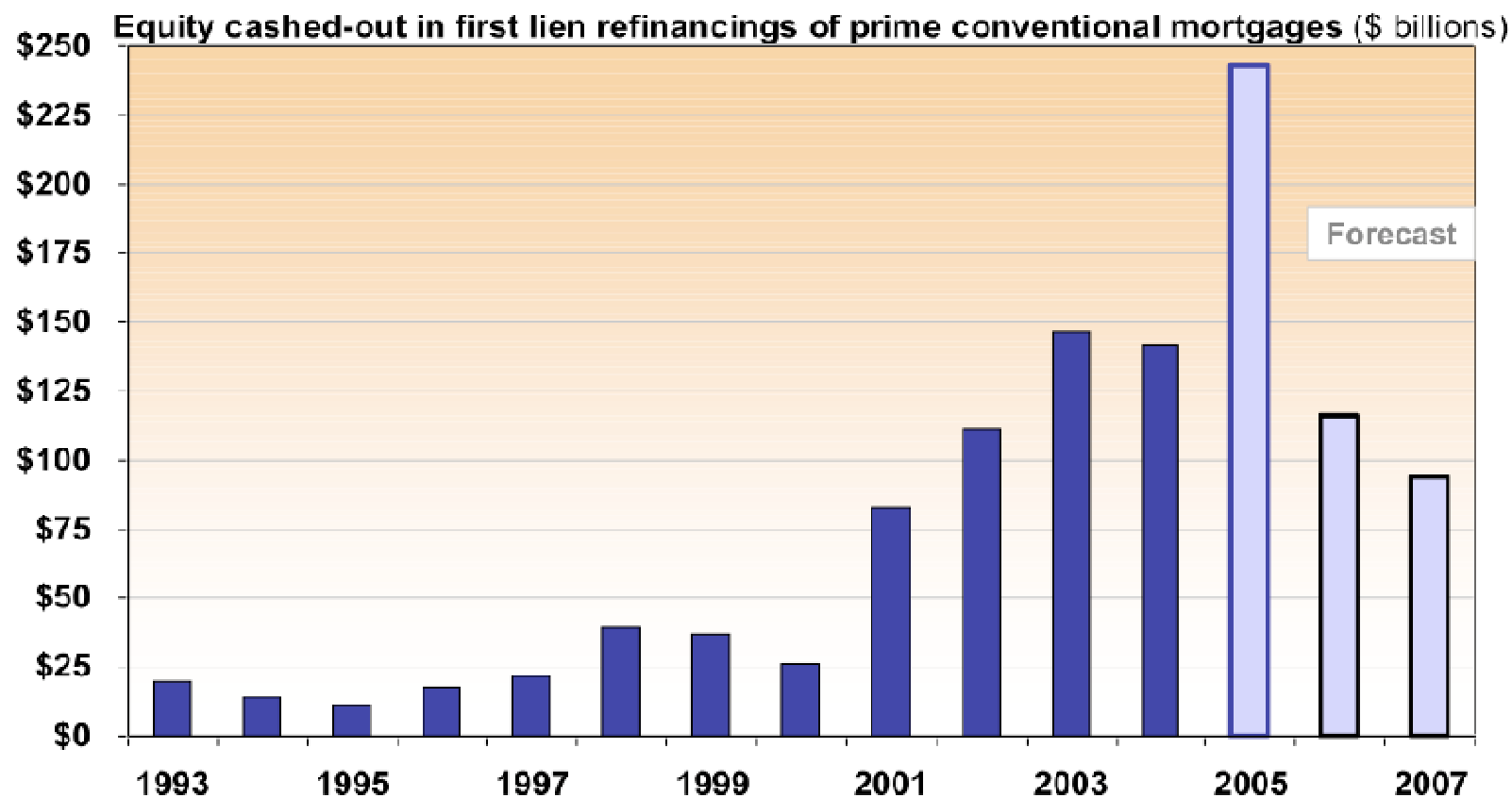


Source: LoanPerformance-a subsidiary of First American RES  
(issues through September 2005)

Office of the Chief Economist



## Home Equity Cash-Out Volume in 2006 Will Be Lower



Sources: Freddie Mac's Cash-Out-Refi Report for 4Q 2005

Office of the Chief Economist

# Should You or Shouldn't You?



Clients inquiring about short  
sales have one thing in  
common -

**they all  
want to  
or need to  
SELL  
their home.**

**They NEED your services!**

# Who Else Needs You?



Banks, Lien Holders need your services as well.

- All REO properties are listed with Realtors. They are the perfect sellers — the properties are generally priced to sell and the price is adjusted until it property sells.
- Lien Holders need BPOs and comparable sale information.
- Lien Holders need a TRUSTED contact in each area.

**Lien Holders **SHOULD** be on your prospecting list.**

# What else does a short sale homeowner need?



Professionals who  
**UNDERSTAND**  
the process.

**Keller Williams**  
**Integrity First**



# Why would a lender agree to accept less than the principal amount owed?

Because in 2005 a lender lost an average of \$50,000 per foreclosed home. This figure is probably much higher this year.

*GMAC-RFC (Residential Funding Corporation), America's largest private issuer of mortgage backed securities and a leading warehouse lender, estimates According to the U.S. Census Bureau's statistical abstracts, the number of non-farm mortgage loans in foreclosure at year-end 2003 (the latest year for which information is available) was over 500,000. This translates into \$25 billion in foreclosure cost for lenders. (PMI)*

*Desiree Hatcher, Profitwise News and Views February 2006*



# Starting the process

## First let's understand the loan

### It is a Promissory Note

- It is a negotiable instrument
- It has loan terms
  - Dates, amount, & interest rate
  - Borrower's "promise" to pay
  - "Grace" period... Really?
- It is late
  - After 15 days
  - Penalty & credit ding
- It is delinquent
  - 30 > 60 days
  - Penalties & credit hit
- **It is in default**
  - 60 days +
  - The game begins
  - Expense mounts quickly!



# Identifying the need

This is where you can start the needs analysis.

- Does your client really need a short sale?
- Do they actually qualify for a short sale?
- And does their home qualify for a short sale?

The documentation and disclosure will serve as your “weeding out” process.

The first step is to establish a hardship.



**Never lose sight of the client's need!**  
**They came to you to **SELL** their home.**

# Establishing the hardship

- **Is there a **hardship**?**
- **Will the hardship **qualify**?**
- **Can it be **substantiated**?**

## Job Loss Is the Leading Hardship Reason Among All Delinquent Borrowers

Hardship Reason	1999-2005
Unemployment or curtailment of income	41.5%
Illness in the Family	18.9%
Excessive obligation	10.3%
Marital difficulties	8.4%
Death in the Family	3.9%
Property problem or casualty loss	2.1%
Extreme hardship	3.3%
Inability to sell or rent property	1.6%
Employment transfer or military service	0.9%
All other reasons	9.0%

Source: Freddie Mac

Office of the Chief Economist

# **Your consulting role**

Collecting the necessary information for your client is a part of your consulting role that builds rapport and puts you in a position of a consultant.

Remember, your objective is to provide a service the client wants - to sell their home. At this point you still don't know if the property and client will qualify for a short sale.

- The first step you need to take is get written permission from the client so you can negotiate with the lien holder on their behalf.
- With this in hand you will call the lien holder and get the appropriate application package. There is no standard so you will have to call each lien holder.

# Documentation sample

## Personal information

### Income/Expense Data

MONTHLY INCOME DATA			
DESCRIPTION	BORROWER INCOME	CO-BORROWER INCOME	TOTAL
GRUSS SALARY / WAGEN			
OVERTIME PAY			
COMMISSIONS / TIPS			
BONUSES			
INTEREST / DIVIDENDS (Savings, Life Insurance, Stocks/ Bonds)			
ALIMONY			
CHILD SUPPORT			
RENTAL PROPERTY INCOME			
OTHER: (specify)			
OTHER: (specify)			
TAXES: FEDERAL INCOME TAX			
FICA			
STATE INCOME TAX			
OTHER: (specify)			
OTHER DEDUCTIONS: (specify)			
NET INCOME			

MONTHLY EXPENSES			
DESCRIPTION	MONTHLY PAYMENT	BALANCE DUE	MONTHS DELINQUENT
MORTGAGE PAYMENT (Primary Residence)			
MORTGAGE PAYMENT (Other)			
ALIMONY / CHILD SUPPORT			
CHILD CARE			
AUTO LOAN - 1			
AUTO LOAN - 2			
OTHER LOAN PAYMENTS			
CREDIT CARD PAYMENTS (Visa, MC, Other)			
UTILITIES (Gas, Electric, Water/Sewage)			
TELEPHONE			
AUTO INSURANCE			
HEALTH / LIFE INSURANCE			
CHARITABLE/CHURCH DONATIONS			
MEDICAL (Doctor/Dentist, Drugs, Hospital, etc.)			
GASOLINE / PARKING/ AUTO MAINTENANCE			
FOOD			
CLOTHES			
ENTERTAINMENT (Movies, Cable TV, Sports, Dinner)			
OTHER: (specify)			

The lien holder may require the following:

- ▶ Two years Tax Returns.
- ▶ Two current Pay Stubs
- ▶ Two most recent Bank Statements

You will need from seller:

- ▶ Letter (or form) authorizing you to negotiate on their behalf.
- ▶ Loan Payment Coupons and/or Address/Acct # of Current Lender.

### Assets / Liabilities

BORROWER INFORMATION			
BORROWER NAME: _____		SOCIAL SECURITY # _____	
CO-BORROWER NAME: _____		SOCIAL SECURITY # _____	
MAILING ADDRESS: _____		_____	
PROPERTY ADDRESS: _____		_____	
HOME TELEPHONE: ( ) _____		NUMBER OF DEPENDENTS (INCLUDING YOURSELF) _____	
EMPLOYMENT INFORMATION			
BORROWER		CO-BORROWER	
EMPLOYER: _____		EMPLOYER: _____	
ADDRESS: _____		ADDRESS: _____	
TELEPHONE: ( ) _____		TELEPHONE: ( ) _____	
POSITION: _____		POSITION: _____	
NUMBER OF YEARS ON JOB _____		NUMBER OF YEARS ON JOB _____	
ASSETS / LIABILITIES			
DESCRIPTION	ESTIMATED VALUE	AMOUNT OWED	NET VALUE (DIFFERENCE)
PRIMARY RESIDENCE ADDRESS:			
OTHER REAL PROPERTY ADDRESS:			
AUTOMOBILE MAKE/MODEL:			
AUTOMOBILE MAKE/MODEL:			
BANK ACCOUNTS - CHECKING			
BANK ACCOUNTS - SAVINGS			
IRA/KEOGH ACCOUNTS			
401K SAVINGS PLAN			
STOCKS/BONDS/CDs			
BOAT(S)			
CASH VALUE OF LIFE INSURANCE			
COLLECTIONS/ART/COINS/ETC.			
COMPUTERS/ELECTRONICS			
OTHER: (specify)			
OTHER: (specify)			

### DESCRIPTION OF HARDSHIP

(Please provide a brief description of the circumstances related to your hardship. Attach additional pages if more space is needed.)

[illegible]

**ADDITIONAL INFORMATION REQUIRED:**

1. Most Current years Tax Returns
2. Paystubs (2)
3. Broker Price Opinion
4. Copy of Fully Executed Sales Contract (Preforeclosure Sale or Assumption)
5. Estimate of Closing Cost (Preforeclosure sale)

### AUTHORIZATION/CERTIFICATION

I obtained a Mortgage Loan secured by the above referenced mortgaged property. I have described my current financial Statement form and I certify that all information presented herein as well as all attachments are true, accurate and correct to the best of my knowledge. I understand that submission of this information in no way obligates my Mortgage Servicer, Investor or Insurer to provide assistance to me.

By signing the Financial Statement, I hereby authorize my Mortgage Servicer and/or Mortgage Insurer to:

1. Order a credit report from any credit reporting agency; 2. Verify, when deemed necessary, any current or previous employment, bank accounts, tax returns or assets; 3. Release any and all information concerning the above. I also authorize the investor and/or mortgage insurer to contact any listing broker to obtain any information/documentation pertinent to the marketing of the property and agree to cooperate with the investor and/or Mortgage Insurance company in dispensing of the property should a pre-sale be agreed to by all parties.

I, therefore agree that if it is determined that the financial information provided herein has been misrepresented by me and such misrepresentations have induced action by the Mortgage Servicer, Investor and/or Insurer that would not have been taken, had the true facts been known; I shall be liable for any and or all losses or damages suffered by the Mortgage Servicer, Investor and/or Insurer.

Submitted this, the \_\_\_\_\_ day of \_\_\_\_\_, 1999

Borrower Name (print)

Borrower Signature

Co-Borrower Name (print)

Co-Borrower Signature



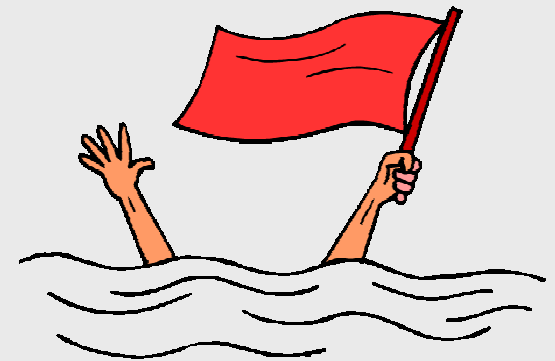
# **Documentation**

## **Property information**

- **BPO (broker price opinion)**
- **Comparable sales**
- **Current appraisal**

# Red Flags

- Additional Deeds of Trust (more later).
- Equity line of credit (more later).
- Credits for closing costs and/or Repairs.
- Commission paid or commission credits.
- Assignment of refunds for impounds, prepaid expenses, taxes & insurance.
- Any changes and/or modifications to the existing Real Estate Purchase Agreement and Joint Escrow Instructions.
- Lender approval.



# Red Flags

## Additional deeds of trust and equity lines

- **Additional deeds of trust**

- If there are more two or more deeds of trust, it is a good bet that the first lien holder will not cooperate. Why? Because they simply can foreclose to satisfy their lien. You will have to negotiate with liens in junior positions.

- **Equity lines of credit**

- Equity lines can be troublesome. Make certain the equity line is closed before you go any further. Don't take the bank's word for it - get it in writing.

# Warning! Warning!

## Tax Consequences

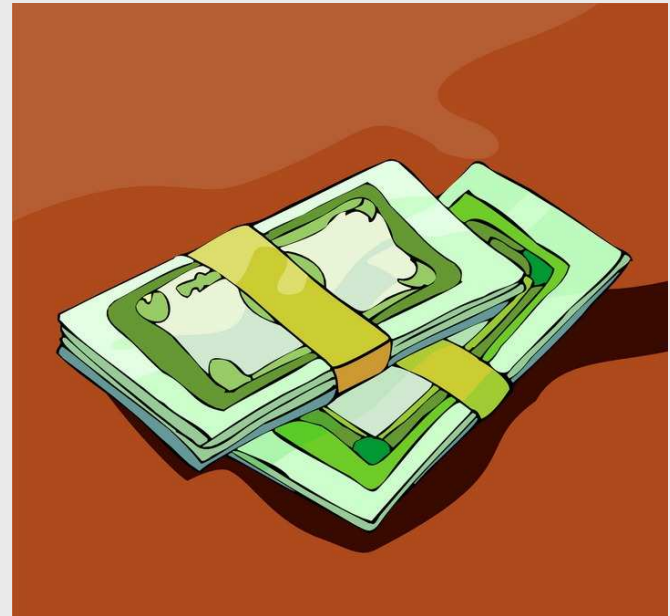
There may be **MAJOR** tax consequences resulting from a short sale. Have seller consult with a CPA or Attorney.

- A short sale may result in something called “**Debt Relief.**”
- The seller may owe Federal Taxes for the amount of “**DEBT**” the lender has forgiven.
- This can be a shock to a seller already burdened with financial issues. **Please advise seller to consult a professional.**



# **Your commission And buyer and seller proceeds**

- Remember, the Seller gets NO money from the proceeds of a short sale.
- Unless approved by the lender, the Buyer does not generally get any credits, money to fix issues, etc.
- Your commission is also often negotiated. Prepare for this by getting a buyer-broker agreement.



# Disclose, Disclose, Disclose

Disclosure will keep you out of trouble. Disclose everything. Please check with your State Association if they require a special form. Some disclosure items include:

- Seller's receipt of **written consent** from all existing secured lenders and lien-holders.
- A short-pay may create **credit or legal problems**, or may result in taxable income to Seller. Seller is advised to **seek advice from an attorney, certified public accountant** or other expert regarding such potential consequences of a short-payoff.
- Seller **may present to Short-Pay Lender any additional offers** that are received on the Property.

# Short Sale approval sample

Watch for the  
expiration date

**ALS** AURORA LOAN SERVICES INC  
601 Fifth Avenue • P.O. Box 1706 • Scottsbluff, NE 69363-1706 • Fax: 308-630-6700  
NATIONAL SERVICING CENTER

VIA FACSIMILE: 520-290-3886 LM100  
December 19, 2003 013236

RE: Short Payoff Approval: Demand Statement  
Aurora Loan Number: 0102834470  
Mortgagor(s): John C Trickey  
Sharon L Trickey  
Property Address [REDACTED]  
Aurora Loan Services [REDACTED]  
property that will result in a short payoff of the mortgage. Our approval is based on the contract of sale between [REDACTED] and [REDACTED].

3. Neither the borrower nor any other party may receive any sale proceeds or any other funds as a result of this transaction, except noted in this letter.

Buyer is paying all closing costs

\*\*\*THE FINAL HUD-1 SETTLEMENT STATEMENT, SIGNED BY BUYER AND SELLER, MUST BE FAXED THE DAY OF THE CLOSING TO MY ATTENTION AT 308-220-2251.\*\*\*

2. The closing must be completed no later than 01/23/04.  
\* If settlement is delayed or the transaction is cancelled, immediately notify ALS' Loss Mitigation Department.  
\* Written approval must be obtained from ALS' Loss Mitigation Department if unable to complete the transaction by the specified settlement date.  
\* ALS reserves the right to assess a per diem after the original settlement date.

3. Neither the borrower nor any other party may receive any sale proceeds or any other funds as a result of this transaction, except noted in this letter.  
\* If the combined amount of the sale proceeds and the contribution total more than the amount due to the mortgage, then contact ALS' Loss Mitigation Department.  
\* The borrower must assign to ALS any rights to escrowed funds, insurance proceeds or refund from pre-paid expenses.



## Be Very Afraid

- Learn why lenders are so willing to take huge discounts.
- Learn proper way of negotiating; time is valuable and you must not waste it.
- **Learn how to set up a land trust.**
- The Authorization to Release Form. You must have this!
- **Learn how you can pull out any excess money in escrow.**
- Purchase Agreements – learn to fill them out correctly – they provide samples already filled out so you can copy them.
- **Hardship letters – so lenders will accept a discount. Certain statements will put the odds in your favor.**
- Calling the bank. If you don't do this right, the banks won't work with you.
- Learn about BPO's – Brokers Price Opinion.

**And the winner is...**





# And the winner is?

- **Learn how to fill out HUD-1 settlement statements!**

# In conclusion

- A short sale is an opportunity for you to:
- Help a client in need by selling their home.
- Perform your primary job function — lead generation.
- Get “referrals for life” from your client — lead generation.
- Introduce your services to lien holders for future referrals — lead generation.

**Remember, your primary job function is to **lead generate**.  
Short sales are an excellent opportunity to add **referral**  
sources to your database.**

# **Questions or comments**

## **Please contact**

Security Title

Sue Reagan

602-230-6263