What Every Seller Should Know About the Short Sales Process

Short Sales remain a topic of discussion for homeowners nationwide. In Michigan it seems so often that short sales are a necessity for anyone looking to sell their home. It is also no secret that Short Sales do not have the best reputation, but with assistance from trusted professionals and an educated approach there is hope at the end of your home sales troubles.

From the perspective of Stewart Title’s short sale coordinating team here are a few things that every seller should know about short sales.

1) **Don’t believe everything you hear!**

   Short Sales are like snowflakes and no transaction is exactly the same. With different lenders, investors, financial circumstances, property values and conditions it is nearly impossible to compare one homeowner’s experience to another. Do not allow yourself to be deterred from a potentially beneficial solution because your neighbor, family member or friend of a friend had a bad short sale experience. Do your research and find knowledgeable professionals to help you work with your lender in the most efficient and painless way.

2) **What is a Short Sale?**

   A short sale occurs when a seller homeowner needs to sell their home for hardship or relocation purposes and does not receive an offer sufficient to pay a mortgage loan in full. A person lists their home for a value determined by a licensed real estate agent and requests that their bank(s) consider issuing a payoff less than what is owed thereby allowing the home to be sold.

3) **The role of the lender, mortgage insurance company, and investor.**

   - **The Lender:** Also known as the bank or servicer. This is the entity that you make your payments to. The lender services your loan on behalf of their investor.

   - **The Mortgage Insurance Company:** Based on the type of loan you are working with there may be an MI Company. Their review and final decision is required to move forward in the short sale process.
The Investor: The final decision on short sale approval lies with the investor. The most common investors include Fannie Mae, Freddie Mac, FHA and VA. Credit Unions are an exception as they often originate and back their own mortgage loans. A private investor can also back a mortgage loan and may have different short sale requirements.

4) How long does a short sale take?

The average short sale will take between 80 and 120 days. Each short sale goes through multiple layers of review:
- Initial document review.
- Lender obtains and reviews property values.
- An assigned negotiator will review borrower financial information.
- Complete file is reviewed by a Mortgage Insurance Company (if applicable).
- Complete file is often reviewed by a Quality Control Department.
- Complete file is submitted to the Investor for final short sale approval.

5) What documentation is required to be considered for a short sale?

While your real estate agent, short sale company and/or attorney may be handling the majority of the short sale file with the lender, a seller’s role is the most important! Your lender will require a certain set of documentation and information to make the final decision on a short sale payoff. Failure to provide this documentation in a complete and timely manner can increase the short sale time frame unnecessarily. Homeowner’s in the short sale process should be prepared to provide updated financials monthly.

Here is a list of standard documentation that will be required to process your short sale:
- Third Party Authorization – signed and dated. This allows your real estate professionals to communicate with the lender on your behalf.
- Bank Statements – Most current 60 days and ALL pages are required.
- Tax Returns – Most current 2 years. Many lenders required page 2 to be signed.
- W2’s – Most current 2 years
- 4506T Tax Transcript Request – Can be obtained from your real estate agent, short sale company, or at www.irs.com
Detailed Hardship Letter – signed and dated within 60 days. Some things that most lenders consider a hardship:
- Curtailment of Income
- Unemployment
- Divorce
- Forced Relocation
- Borrower illness
- Borrower’s death
- Any reason that would prevent a homeowner from making payments and/or maintaining the mortgage and property

Proof of Income:
- Paystubs – Most current 30 days
- Self-Employment – Year to Date Profit & Loss Statement
- Social Security – Most current benefit statement
- Unemployment – Most current benefit statement
- Retirement – Monthly payment statement
- Rental – Most current 30 days check copies
- Alimony/Child Support – Court Order and proof of deposit
- No Income – Letter of Explanation, separate from the Hardship letter, signed and dated within 30 days

Detailed Financial Worksheet and/or Lender/Investor required Application:
- Each lender, investor and program has their own required financial application.
- You or your short sale company should contact your lender(s) to determine which application(s) will be required.
- You may be asked to complete multiple applications with the same information. It will be a requirement and failure to comply will cause delays.
- Be as detailed with monthly expenses as possible. Attach additional pages if necessary. This is not a time to be shy or conservative as it will illustrate hardship and the necessity to sell your property.

6) Does the mortgage payment need to be late to process a short sale?

The lender and/or investor that you are working with may require the mortgage payment to be delinquent in order to consider a short sale. While none of the real estate professionals involved will EVER encourage you to skip a payment, you may be informed that your short sale will not be considered unless you miss a certain number of payments as determined by the investor guidelines. For more clarification, sellers interested in a short sale are encouraged to contact the lender directly for the guidelines that pertain to their specific mortgage(s).
7) **Does a short sale stop collection activity?**

If you are delinquent with your payment a short sale does not necessarily stop the lender’s collection department from pursing a payment. Homeowner’s receiving collection calls while in the short sale process should disclose that they have a file in review, however this does not guarantee that subsequent calls will not be received. Also, the collection department is not connected with the short sale department and should never be asked to provide short sale status.

8) **Does a short sale stop foreclosure action?**

A short sale in process does not guarantee that the lender will stop foreclosure proceedings. Once a foreclosure or Sheriff’s Sale is scheduled it is possible that the lender/investor will allow for a postponement of the sale to provide sufficient time to receive short sale approval. This is also not a guarantee, however a postponement can and should be requested. It is imperative that you notify your real estate agent, short sale company and/or attorney if a foreclosure sale is posted at your property. There are specific time frames and document requirements to postpone a sale as determined by your lender/investor.

9) **Important information about vacant properties.**

The property is the lender/investor’s collateral for the mortgage. As such, they will do what is necessary to secure and protect their collateral. It is possible in a short sale or foreclosure situation that the lender will secure or preserve a vacant property. Continued maintenance and care should be provided by the homeowner and if locks are changed in the case of lender ordered preservation, access can be obtained by contacting the lender’s property preservation or field service department. This contact information can be obtained with the assistance of your real estate agent, short sale company, attorney and/or lender’s customer service department.

**VERY IMPORTANT:** If you own a vacant property that is in the foreclosure process regular visits to the property are encouraged! Once a property has gone to foreclosure sale and is determined “Abandoned” it is subject to a “Notice of Abandonment.” A response to this notice is required within 15 days of it being posted at the property. Failure to respond with detailed information to dispute the abandonment can result in a shortening of the 6 month foreclosure redemption period. At that time the property would be titled to the lender/investor.

10) **Will a lender approve a short sale if there is no hardship?**

There are no guarantees, even with a hardship. Most lenders/investors will require detailed reasons why a borrower cannot continue making payments and fulfill the terms of their mortgage note. If you question whether your lender is willing to consider a short sale you can contact the lender’s short sale department to discuss your options.
11) **Is an offer on the property required to start a short sale?**

Several lenders will accept a homeowner financial package once the property is listed for sale. Many of the initial steps can be completed during the time that the property is being marketed. Homeowner’s should be prepared to submit updated bank statements and pay stubs regularly to keep the file current. The lender may also order an appraisal or BPO (Broker Price Opinion) and analyze property values in advance. Depending on the lender and/or loan type a suggested listing price may be provided. This can sometimes save valuable time once an offer on the property is received.

12) **Is the lender likely to waive the remaining balance? Will a contribution or promissory note be required?**

- The final decision to waive a deficiency or remaining balance is up to the Investor.
- There are programs that offer an automatic waiver of deficiency, including the HAFA and FHA Pre-foreclosure programs, but they are loan, lender and investor specific.
- Some investors/mortgage insurance companies will accept a cash contribution at closing to waive the remaining deficiency balance.
- Some investors/mortgage insurance companies will agree to a settlement by way of an unsecured promissory note.
- If the deficiency balance is waived the lender will most likely issue a 1099C which has the potential for tax consequences.
- Deficiency decisions are truly made on a case by case basis and are governed by many different circumstances and investor guidelines.

**VERY IMPORTANT:** It is highly recommended that you consult with your accountant or tax advisor regarding the possible consequences of a short sale transaction.

13) **What potential liens, besides existing mortgages, could be on a property and will a lender allow them to be paid in a short sale?**

- Tax Liens: Most lender/investors will not allow tax liens to be paid in a short sale. A release will need to be obtained from the appropriate tax authority prior to closing.
- Association Liens: If association dues are delinquent it is possible that a lien will be placed. Approval to pay as part of the short sale is determined on a case by case basis.
- Judgment Liens: Most lenders/investors will only allow a percentage of the balance to be paid in the short sale. A settlement with the judgment holder will be required prior to closing.
- Home Improvement Loans: Financing for windows, roofing, etc. can potentially be a lien. A percentage of the balance may be approved, but a settlement will need to be negotiated.
14) **Can a short sale be done at the same time as a Modification?**

No, a short sale and modification cannot be done at the same time. These two programs are handled in different departments and have different requirements and outcomes. A homeowner in the process of a Modification or recently denied for a Modification may be required to contact the lender to cancel the Modification review if a short sale is desired instead.

15) **How do short sales work if the homeowner has filed for or completed Bankruptcy?**

- A bankruptcy proceeding will delay or potentially halt a short sale until the bankruptcy is closed and discharged.
- The real estate agent, short sale company and lender should be informed immediately once bankruptcy is filed.
- A short sale during bankruptcy requires a court order from the bankruptcy court.
- A debtor who has gone through bankruptcy is no longer obligated for the debt, however bankruptcy does not remove a mortgage lender’s lien from a property and a short sale is still required to sell the property.

16) **How should a homeowner considering a short sale get started?**

- Determine the detailed reasons why the payment and/or property ownership cannot be maintained.
- Contact the lender to discuss all the possible options for assistance.
- Consult with an attorney about the best course of action.
- If it is determined that selling the property is the best option, contact a real estate agent to list the property or sale.
- Align with a knowledgeable short sale company to assist in processing with the lender.
- Collect and submit a complete and detailed short sale package based on the lender/investors guidelines.

17) **If a short sale approval is received is the homeowner locked into the transaction?**

No. If at any time the homeowner is not satisfied or comfortable they are not required to accept the short sale terms. Of course, the terms of the purchase contract remain in place and the real estate agent and/or attorney should be consulted before any final decisions are made.

18) **How long will it take to close once the short sale is approved?**

Most lenders will allow roughly 30 days to close a short sale transactions. During that time the homeowner needs to make arrangements to move and the buyer will have to complete their new mortgage processing. Extensions are available on a case by case basis, but are not a guarantee. Every effort should be made to close within the time frame allotted in the approval letter.
19) **What resources are available?**

Depending on your loan type there are various short sale programs available. The following are select references to research options:

- The Making Home Affordable Program: [www.makinghomeaffordable.gov](http://www.makinghomeaffordable.gov)
- The FHA Pre-Foreclosure Sale Program: [www.hud.gov](http://www.hud.gov)
- Short Sales for VA Loans: [www.homeloans.va.gov](http://www.homeloans.va.gov)
- The best reference for short sale guidelines specific to your loan is to contact the lender directly.

20) **The most important thing a homeowner needs when going through the short sale process.**

Patience! The process can be long and frustrating, but being informed and employing a team of dedicated professionals makes a short sale a reasonable alternative.
Stewart Title provides title and escrow services nationwide and has local offices in Livonia, Shelby Township, Okemos, and Grand Rapids. In addition to escrow services we have a team of experienced short sale coordinators to assist homeowners and real estate agents with processing short sale transactions. Once approved we streamline the file to the escrow department where we can further assist in making sure the short sale portion of the closing transaction is as smooth as possible.

What you can expect from the Stewart Title Short Sale Team?

✧ There is no additional fee for our short sale processing services. We present a reasonable amount of fees for payment from the short sale proceeds. Even if the bank requires that all of our fees be removed, or if the short sale is not approved, there are no hidden processing fees.

✧ We can manage your short sale file from the time of listing through the time that approval is received. At that point we work hand in hand with the Stewart Title escrow team to insure that your closing is as smooth as possible.

✧ The members of the short sale team understand that each seller and each transaction is unique. We can work directly with you or with your real estate agent collecting documents and providing updates throughout the process.

✧ The short sale department combine the knowledge of title and escrow with a vast understanding of the short sale process to make sure that your road to approval is as successful as the lender will allow and that when approval is received you are prepared for a smooth transaction.

✧ We are coordinators who bridge the communication between the seller and the bank. We are not negotiators, attorneys, or tax professionals and at the time that vital decisions and/or investor terms are presented we will direct your client to seek the counsel of an appropriate professional.

✧ Until there are no other possible solutions available we will vigorously pursue short sale approval. While we are unable to guarantee approval, waiver of deficiency, or a *speedy* transaction, we promise on every file that we will work hard for the successful outcome that you and your seller deserve.

For questions regarding short sales please contact the Stewart Title Short Sale Department!

Jennifer E. Zoldock  
Short Sale Coordinator  
Phone: (734) 469-9453  
Fax: (248) 368-9949  
Email: jzoldock@stewart.com

Nicole K. Wing  
Short Sale Coordinator  
Phone: (517) 853-5982  
Fax: (517) 318-1344  
Email: nwing@stewart.com