

What is a Short Sale and How Does the Process Work?

"*What is a short sale?*" is a commonly asked question amongst homeowners struggling to pay their mortgage payment. Word has gotten out that short sales can help borrowers avoid foreclosure. While this is true, the process is complex and requires authorization from the originating mortgage lender.

There is no simple explanation of what is a short sale. At present, no unified protocol exists, although lenders must abide by certain criteria. Not all properties or borrowers qualify for short selling their property. Nor, are all lenders required to offer this transaction.

Short sale criteria require borrowers to be a minimum of 31 days delinquent on their mortgage note. The appraised property value must be less than the balance due on the loan and borrowers cannot own assets which could be used to repay the debt.

The term 'short sale' means the bank allows borrowers to sell their property for less than they owe on their loan. Short sales are usually offered when all other methods to save the home from foreclosure have been exhausted. It is important to understand once a home has entered into foreclosure it is no longer eligible for short sale. Therefore, it is crucial for borrowers to contact their lender when they are unable to continue making mortgage payments.

Short sales are handled through each lender's loss mitigation department. Once borrowers default on their loan, a loss mitigator is assigned to handle their account. This individual is responsible for assisting the borrower to resolve the delinquency. They do not approve or disapprove short sale requests. Instead they act as a mediator for the borrower and lender.

Mortgage lenders usually require borrowers to submit a short sale hardship letter describing events which caused delinquency of the loan. The letter of hardship is an important element of obtaining short sale approval and borrowers should take time to carefully craft it.

Loss mitigators prefer handwritten letters which include a detailed timeline of events, along with any action taken to overcome financial challenges. Lenders are more apt to grant approval to borrowers who lost their job or encountered medical problems than to those who engage in frivolous spending.

The short sale process takes between four and six months to complete. Borrowers will undergo a financial audit and are required to submit a myriad of documentation to the loss mitigator. Some banks require borrowers to have a buyer in place before granting short sale approval. Others will allow the borrower to list their property through a realtor. When property is listed through a realtor, banks generally grant a grace period of a few months to locate a buyer. If the property is not sold within the specified timeframe, the lender will commence with foreclosure action.

Last, but not least, it is important to determine what type of short sale is offered through the lender. Two types of short sales exist: *Deficiency Judgment* and *Payment in Full without Pursuit of Deficiency Judgment*.

Payment in Full releases borrowers from repayment of the deficiency between the sale price and loan balance. Deficiency judgment requires borrowers to repay the deficit. This can be a substantial amount and take years to repay. Judgments remain on borrowers' credit reports until paid in full.