



## ***NMN Foundation: A Nonprofit Organization***

### **Short-Sale Relief**

***What is a Short Sale?*** A short sale is a real estate term that describes a home owner being approved by his/her lender to sell a property for less than the amount owed on the original loan or notes. In most cases, the lender that agrees to the short sale will agree to forgive the remaining debt. A short sale is necessary when the proceeds from the sale of your home are not enough to pay off the loan balance against the home, thus prohibiting the sale.

#### ***Common Myths about Short Sales:***

**I Will be Financially Responsible for the Difference Between What I Owe and What My Home Sells For:** Most lenders will put the following statement on the short sale approval letter you receive in writing: "Lender will not seek a deficiency judgment against borrower". In most cases, if lenders accept a short sale, they are going to write off the loss and show the debt as settled. You are able to walk away from the debt without having to worry about your lender coming after you. There are a few lenders who are pursuing borrowers after a short sale. Contact us to find out which ones. California Law has also challenged this practice in favor of you, the homeowner.

**I Don't Have a Serious Enough Hardship to Qualify for a Short Sale:** Today, it is harder NOT to qualify than to qualify. There are numerous ways to qualify for a short sale, and a borrower does not have to be behind on payments. If a borrower can show that he/she is struggling to make payments or is facing some other type of hardship such as a divorce, tenant moving, job transfer, medical emergency, decrease in pay, etc., then a bank will seriously consider approving a short sale.

**My Credit Will be Ruined if I Do a Short Sale:** A short sale can actually SAVE your credit. It is treated by your lender as a "settlement of debt", and as opposed to a foreclosure, it is easier on your credit and affects it for a much shorter period of time. **Without a doubt, sellers will incur more damage on their credit report by going through foreclosure. Typically, your credit score will take a plunge between 200 to 300 points.** According to Fannie Mae, no mortgage-backed loan can even be obtained until 5 years after reported, no matter what has been re-established or repaired on the credit report.

Short sales have a far less damaging effect on a seller's credit report. Credit scores typically lose between 80 to 100 points. What happens to your credit down the road? It takes about 2-4 years after a foreclosure before a lender will offer a sensible interest rate, whereas a person who went through a short sale typically waits around 12-18 months to buy another home at a good interest rate. Salvaging your credit should always be the primary concern when making the decision between a short sale and stopping foreclosure. The savings in interest payments alone should be convincing enough for most people, not to mention your buying power in the near and distant future. See the attached graph in this packet for more information.

**I Will Owe Taxes on the Amount of Loss That the Bank Takes on My Short Sale:** This can be avoided most of the time. As an example, if your lender accepts \$100,000 less than what you owe, this amount may be reported to the IRS, and as a result, you will be taxed on that \$100,000 as "ordinary income" at the end of the year. The good news is there are many ways to avoid this tax, as approved in recent legislation. You can research the Mortgage Forgiveness Debt Relief Act of 2007 or see if you qualify for "Insolvency". Contact your tax advisor. See the press release from the office of the Governor of the State of California attached in this packet.

At ***National Mortgage Network (NMN - a not-for-profit 501 (C) (3) organization)***, we will assist you with every aspect of the process. Because we are a certified not-for-profit entity, our only concern is to help you rectify your situation, assist you in selling your home, and help you find suitable housing after your home is sold.

We work ONLY with reputable real estate agents, attorneys, and mortgage lenders that we have screened and are in a position to assist you if need be.

#### **Short Sales – Pros**

- Depending on the lender, you may be able to get a release from the deficiency in writing.
- If your property is \$100,000 dollars upside-down, you get rid of the liability now. If you do a loan modification you may still be \$100,000 dollars upside-down or worse even years after.
- Within a few years your credit rating may recover and you may be in a position to purchase property in a down market.
- You may get to live rent free for a period of time.

#### **Short Sales – Cons**

- You may not be able to buy a house for a short time (average 1 to 2 years).
- You will have to move eventually.
- You may damage your credit (though much less than a foreclosure).
- You must deal with the hassle of the sales process.

Please contact us today at **1-800-349-2119** to speak to one of our volunteers who can answer your questions and help you determine your options. We are a nonprofit company dedicated to helping consumers. For more information, log on to [www.nmnfoundation.com](http://www.nmnfoundation.com) and feel free to take any information posted that you would like to read.



**1-800-349-2119**