

Shortsales: What you need to know

If you owe more on your mortgage than your home is worth and you want to sell it and relocate, one option to consider is a shortsale. Here are some shortsale basics to keep you in the loop.

What is a shortsale?

A **shortsale** occurs when a homeowner sells his home at its *fair market value* and the lender accepts the net sales proceeds as full satisfaction of the homeowner's mortgage, called a *short payoff*.

Qualifications for a shortsale

To qualify for a short payoff of your mortgage with most banks, you must:

- be delinquent on your mortgage payments;
- owe more on your mortgage than your property is worth; and
- no longer qualify to pay on your mortgage based on your assets and 31% *debt-to-income* ratios.

Required paperwork

Most lenders will require the following minimum documentation:

1. **Authorization to release information to your agent.** This document gives your lender permission to deal with and furnish your mortgage information to your real estate agent, the first step in negotiations with the lender. [See **first tuesday** Form 124]
2. **A hardship letter.** Your lender must determine whether or not you are financially qualified to make payments on the mortgage. Prepare a letter to your lender detailing your current personal and financial situation — i.e., your inability to make further payments on the mortgage. [See **first tuesday** Form 217-1]
3. **Recent pay stubs, bank statements and tax returns.** Your lender will want to confirm you're only purchasing necessities in lieu of making mortgage payments (i.e. groceries, car repairs and school supplies). Tax returns are used to verify annual income. Often, your lender will also require you fill out a financial statement (equivalent to an application for a loan) to determine whether you have other assets available that qualify you to pay off the mortgage without a discount.
4. **Proof of occupancy.** A utility bill in your name at the property address to prove it is your principal residence and not a rental property.

After your lender receives and reviews the completed documents, they will notify you whether they will consider a **short payoff** as full satisfaction of your mortgage. Then, your agent will need to generate an offer at a price the lender will accept in full satisfaction of the loan, its current market value.

How does a shortsale affect my credit score?

According to a study by FICO, a shortsale has the **same effect** on an underwater homeowner's credit score as a foreclosure on a strategic default. Also, FICO scores damaged by either a shortsale or a foreclosure sale have the same estimated recovery time.

On either closing a short sale or defaulting and losing the home by foreclosure, an *underwater homeowner* whose starting credit score was 620 saw it drop to about 575-595. Underwater homeowners with a starting score of 720 saw it drop to 570-590; starting scores of 780 dropped to 620-640.

Can the bank go after me for the payoff discount?

California anti-deficiency laws prevent a lender from collecting any amount from a homeowner beyond the net proceeds on a short payoff, or the amount received at a trustee's foreclosure sale of the property.

How long does a shortsale take?

The processing times on the lenders' end vary widely. The typical shortsale takes **three to five months**, but any one of many factors involved can deny the seller's agent success.