

TOP 10 SHORT SALE MYTHS

To help make an informed decision about your home, here are the top 10 myths about short sales... Don't believe them!

- 1. You must be behind on your mortgage payments in order to qualify for a short sale.** You do not necessarily need to be behind on your mortgage payments to qualify for a short sale; you just have to show that it's going to get harder to make your payments. These are known as hardship reasons, and can include recent pay cuts, a divorce, a serious illness, job loss and more.
- 2. Banks would rather foreclose on a property than bother with a short sale.** In fact, banks lose far less money on a short sale than on a foreclosure. Foreclosures can be costly at \$50k-\$70k per transaction in legal and other admin fees for a lender, so banks would always much rather go with the path of a short sale.
- 3. To be eligible for a short sale, the lender has to pre-approve the transaction.** Each lender differs with certain requirements homeowners must meet to be eligible for a short sale. Make sure you are familiar with the lender's specific processes closely. Your agent can help you with this.
- 4. Short sales can take over a year to close.** Most short sales close within 2-4 months. However, there is no specific time frame promised in which homeowners can expect to have their property approved and closed as a short sale. Each short sale transaction differs and can take more or less time depending on the circumstances.
- 5. A Homeowner's credit is better off if they foreclose, as opposed to short sale.** False! A foreclosure will affect your credit for up to 10 years, and a Short sale, only about 2 years! Also, in a short sale, you can expect to drop about 50-150 points on your score, but with a foreclosure, you can lose 300+ points. On your credit history, a short sale shows as a Settlement since there is no history term for Short Sale. However, on a Foreclosure, it shows as a FORECLOSURE, and can surely affect your future lending potential as well as the interest rate you can get from lenders.
- 6. If you short sale your house, you cannot purchase another property for the next five years or more.** Under conventional lending guidelines, many people can obtain a Fannie Mae backed mortgage two years following the close of their short sale, and other lenders can also lend in 2-3 years time.
- 7. You could be sued after the close of a short sale for the deficiency.** Anti-deficiency protections are in place for short sales and foreclosures in many states, so you must check with your local law, but in most cases, a short sale is a Settlement, and the lender can't pursue you further for the deficiency judgment.
- 8. Short sale agents must have special training and meet certain requirements to short sale homes.** Since short sales are very complex transactions, it is essential for agents to understand and know the ins and outs of the short sale process and how to best negotiate with your lender. However, short sale agents do not need any specific type of training or certification to short sale homes.
- 9. Short sales almost never get approved.** Short sales are getting approved more than ever, since banks prefer this outcome compared to a foreclosure. Trained agents are far more likely to get your short sale approved.
- 10. After a short sale, the homeowner is forced to declare the loss as income and will receive a 1099.** The 2007 Mortgage Forgiveness Debt Relief Act, among other considerations protect homeowners from declaring the loss as income and in most circumstances will not owe any taxes on their transaction. This act expires at the end of 2012 but is expected to be extended. Talk to your tax advisor for more information.

Sources:
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