www.ArizonaforCanadians.com

Maureen Porter
Service First Realty LLC
(928)451-1844 1-877-AZ4-CDNS
maureen@arizonaforcanadians.com

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The bottom-line basics of short sales

*Due to several economic conditions:
rising unemployment, a fall in home prices and an
increase in the amount of homeowners unable to pay
their mortgages – many homes are falling into
a new category called short sales.*

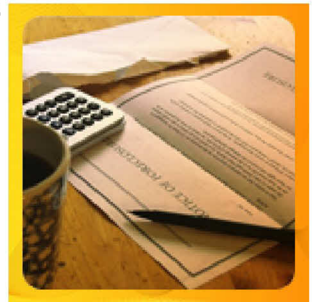
Here are some FAQ's on short sales that every potential buyer or seller should know:

What is a short sale?

According to the National Association of REALTORS® a short sale is defined as "a transaction in which the lender, or lenders, agrees to accept less than the mortgage amount owed by the current homeowner." In other words, a short sale occurs when the homeowner owes more on the home than it is worth.

How is a short sale different from foreclosure?

Foreclosure is the process in which the property is seized by the lending institution. A foreclosure occurs when a homeowner defaults on the loan that they are unable to pay due to deteriorating finances. The process of foreclosure varies from state to state, but generally begins with a *Notice of Default* issued by the lending institution after the homeowner has been 3 months delinquent on a mortgage payment. To avoid a foreclosure, which dramatically reduces a homeowners FICO credit score, many homeowners will attempt to sell their property as a short sale.



How does a homeowner qualify for a short sale?

The homeowner must have financial proof that they are upside down on the mortgage. They must demonstrate a financial hardship and prove their insolvency. This includes W-2 forms (like a T4 in Canada) from the employer, bank statements, two years of tax returns, and other paperwork indicating income and debt obligations.

Are there disadvantages to a short sale?

Yes. Your credit score will be reduced by up to 200 points once reported to the credit bureau. The short sale process is long and arduous and many sellers' submissions for short sales are declined by the lending institutions due to lack of proof of financial distress. Keep in mind that because of current economic conditions and the amount of distressed properties flooding the market, lenders are incurring a very large inventory. They are scrutinizing every short sale submission for any reason to deny the request.

Are there advantages to a short sale?

The simple answer is yes. Short sales are almost always a better option over foreclosure. First, you avoid having your home seized by a lending institution and second, you preserve most of your credit score. For buyers, a short sale could be a great opportunity to purchase a bigger home for less money. **Be aware, though, the process of purchasing a short sale is generally more difficult and takes longer than a traditional home**.

Foreclosure Overview & Foreclosure Process

What is Foreclosure?

Foreclosure is a process that allows a lender to recover the amount owed on a defaulted loan by selling or taking ownership (repossession) of the property securing the loan. The foreclosure process begins when a borrower/owner defaults on loan payments (usually mortgage payments) and the lender files a public default notice, called a Notice of Default or Lis Pendens. The foreclosure process can end one of four ways:

1. The borrower/owner reinstates the loan by paying off the default amount during a grace period determined by state law. This grace period is also known as pre-foreclosure.
2. The borrower/owner sells the property to a third party during the pre-foreclosure period. The sale allows the borrower/owner to pay off the loan and avoid having a foreclosure on his or her credit history.
3. A third party buys the property at a public auction at the end of the pre-foreclosure period.
4. The lender takes ownership of the property, usually with the intent to re-sell it on the open market. The lender can take ownership either through an agreement with the borrower/owner during pre-foreclosure, via a short sale foreclosure or by buying back the property at the public auction. Properties repossessed by the lender are also known as bank-owned or REO properties (Real Estate Owned by the lender).

This foreclosure process allows for three opportunities for finding bargains on foreclosure homes.

Pre-Foreclosure (NOD, LIS):

Buying a property in pre-foreclosure involves approaching the borrower/owner and offering to buy the property outright. The borrower/owner can walk away with something to show for any equity in the property and avoid a bad mark on his or her credit history. The buyer has time to research the title and condition of the property and can realize discounts of 20-40 percent below market value.

More about pre-foreclosures

Wondering what happens after foreclosure? Then please read on. Remember that understanding foreclosures is the first step for homeowners to stop foreclosure. It is also the first step for investors to buy foreclosure properties.

Auction (NTS, NFS):

If the loan is not reinstated by the end of the pre-foreclosure period, potential buyers can bid on the property at a public auction. Buyers often are required to pay in cash at the auction and may not have much time to research the title and condition of the property beforehand;.

Bank-owned (REO):

If the lender takes ownership of the property, either through an agreement with the owner during pre-foreclosure or at the public auction, the lender will usually want to re-sell the property to recover the unpaid loan amount. The lender will then typically clear the title and perform needed maintenance and repair.