How to Sell Your House in a Short Sale

The Definitive Guide for Homeowners with an "Underwater" Home

Provided by

The Fed City Team

at Century 21 Redwood Realty

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Disclaimer: Every homeowner's situation is unique, and local, state and federal laws change regularly. As such, the following information should not be considered as legal, tax, financial or investment advice. Consult a qualified professional before making any financial decisions.

1. Introduction

You own a home with negative equity. That is — your home is worth less than the balance of your mortgage.

Millions of homeowners in just about every U.S. market found themselves "underwater" on their home's value after the housing market collapsed in 2008. Predatory lending practices, record-high job losses, and negative equity home values resulted in an unprecedented volume of short sales and foreclosures nationwide.

It took years for home values to recover. While lending practices have been largely overhauled, if an "underwater" homeowner experiences a financial hardship and can't make their mortgage payments, a short sale may be their best solution.

What is a Short Sale?

A short sale occurs when you sell your home for less than the balance owed on your mortgage. Your lender accepts the "shorted" payoff and releases the lien on the property.

Sale Price		Mortgage Balance		Shortage
$240,000	-	$300,000	=	-$60,000

Homeowners must prove to their lender that they're **experiencing a qualified financial hardship** and can no longer make their monthly loan payments. They also must be lacking the funds to "close the gap" between their home's sale price and the balance on their mortgage.

In an ideal world, the lender "forgives" the **outstanding debt (called a "deficiency")** and the homeowner walks away virtually unscathed. (Aside from bruised credit and a potential tax liability. But we'll address these later.)

— The Fed City advantage

While these deficiency judgments sound distressing (and they are), the Fed City Team at C21 Redwood Realty in Washington, D.C. recommend working with an attorney who will demand a deficiency waiver from the lender as part of your short sale proposal. The Fed City Team and the law firm they work with have never encountered a lender who refused to sign a deficiency waiver.

If the lender chooses to approve the short sale but *not* forgive the deficiency (as is their right to do so), **they may seek a payment plan from the homeowner via a personal loan.** Or worse, come after the homeowner with a **deficiency judgment (i.e. lawsuit)** after the sale.

A lender may also reject a short sale proposal, opting instead to tie up the property in lengthy foreclosure proceedings. (Especially if they think they can make more money from the house at auction.)

Short sales can be complicated and messy, and unfortunately homeowners are beholden to the whim of their lenders. However, **if a short sale is financially more beneficial to the lender than the alternatives, they'll allow it.**

Fortunately, this is true with most "underwater" homes. But being "underwater" alone is not enough to gain lender approval.

Summary of Steps

All short sale situations are unique, but here is a summary of the typical process:

1. **It starts with a hardship**: The homeowner experiences financial difficulty and their only way out is to sell. They suspect that their home is worth less than their mortgage balance.
2. **Homeowner hires the pros** — including a real estate broker with short sale experience, and an attorney — usually at no cost to the homeowner.
3. **The real estate broker** lists the property for sale.
4. **The attorney** prepares a "short sale proposal" with the homeowner.
5. **A buyer** makes a qualified offer.
6. **The short sale proposal** is submitted to the lender for review.
7. **Attorney and lender negotiate terms**.
8. **Lender eventually approves** and closes on the transaction, at a loss.
9. **Homeowner recovers** and works to repair credit.

Short Sale vs. Foreclosure

In many cases, lenders will opt for a short sale in order to avoid costly and time-consuming foreclosure proceedings.

Short sales are usually more time-consuming than a traditional sale, taking on average 90 to 120 days to close. But **even a quick foreclosure can exceed 180 days**; in several states this timeline can take 1 to 3 years.

Foreclosures can be a huge burden for lenders, **but they pale in comparison to the long-term damage they inflict on the homeowner.**

In a short sale situation, the homeowner may be just starting to be delinquent on their monthly loan payments. They may be paying late, paying only partial amounts, or missing one or two payments entirely.

Foreclosure proceedings don't usually begin until the homeowner is at least 90 to 120 days late on making a payment. During this time, they will have received delinquency notices, and perhaps have had some preliminary conversations with their bank about what their options are.

It is in the homeowner's best interests to connect with their bank early, come to a resolution, and **avoid foreclosure at all costs**.

The grid below describes the difference between a short sale and a foreclosure.

------------------	Short Sale	Foreclosure
Basics	You sell your home (with your bank's approval) to a willing buyer for less than you owe on your mortgage.	You default on payments, the bank evicts you and takes ownership of the deed.
Outstanding Debt	If successful, any outstanding debt is forgiven.	In some states, the lender may sue you for the outstanding debt and garnish assets and wages.
Credit Score	Is moderately affected (50 to 100 points) by late or delinquent payments. Your score takes 12 - 24 months to recover.	Is severely affected (250+ points), and takes 3 or more years of good spending habits to recover.
Credit History	After the closing, your mortgage is listed as "paid" or "settled" on your Credit Report.	A foreclosure will remain on your Credit Report for 7 - 10 years, and remain permanently on county public record.
Home Buying Timeline	You can usually purchase another home after 18 - 24 months.	You may need to wait 5 - 7 years to qualify.
Home Buying Power	You may be approved to buy another home for less than 10% down.	You may be required to put 10 - 20% down on a new home.
Employment	May be temporarily affected if a credit check is required.	May affect security clearances and your ability to hold a position in finance, government or law enforcement, or any position in which a credit check is required.

So, while both outcomes carry negative credit and tax consequences, **short sales are far less impactful and damaging**.

If you are experiencing a financial hardship, or anticipate one coming, take the time to weigh your options carefully and be proactive about seeking the best resolution for your long term financial security.

2. Assess Your Financial Situation

You've encountered a hardship in your life and are having trouble paying your monthly mortgage expenses.

Maybe you're open to selling your home but its current market value is less than what you owe on it. Or, you want to stay but suspect that no amount of financial relief will sustain you in the long term and a short sale is your only solution.

Maybe you believe that your hardship is only temporary, and you want to know what loan modification programs are available to help.

In either a short sale or loan modification scenario, you will need to prove your changed financial circumstances to your lender.

The Hardship

Any of the following life events may qualify as a financial hardship:

- Job loss
- Reduced income due to circumstances beyond your control
- Divorce or separation
- Death of the homeowner or an immediate family member
- Illness or medical emergency
- Job transfer
- New variable loan rate kicked in
- Natural disaster
- Unexpected and/or major home expenses
- Extended military service

Many of these situations are perceived as life events that were out of your control.

A severe illness in your family that causes the income-earner to reduce their hours at work or seek expensive, specialized care outside of their insurance coverage is an easily proven hardship.

Same goes for the individual who is being transferred to a different office due to budgetary cuts.

Lenders will want to understand how the hardship arose, and if you've tried everything in your power to avoid or resolve the issue.

If foreclosure proceedings have already begun on your home, it may be too late to switch gears for a short sale. Consult a local real estate attorney to learn if you can reverse the foreclosure process in lieu of a more favorable short sale outcome, or next favorable — a deed in lieu of foreclosure

For instance: Is your job transfer voluntary or involuntary? If voluntary, and you know your home won't fetch a sales price high enough to cover your mortgage, why would you transfer?

If you're just looking for a change of scenery, your lender may not be amenable to a short sale and your only option may be to rent out your property.

However, if your current position at work is being phased out and you need to secure a job transfer while there's an opening available and *before* you're given the pink slip — your lender may be willing to work with you on a short sale.

If you lost your job and expect to be unemployed for several months (perhaps because of your specialized skills or because the local economy is hurting), **your lender can introduce you to loan modification programs** to help you stay in your home.

Hardships can happen to anyone, for any reason. Even millionaires have been approved for short sales. And people battling addiction or gambling debts have been able to modify their mortgage payments and avoid foreclosure.

It's all about the lender's perception of your hardship and if they understand that an urgent resolution is needed in order to avoid foreclosure.

If your situation is not as cut-and-dry as the qualified hardships mentioned above, **consider meeting with an attorney** to discuss the likelihood of a successful outcome.

Short Sale Alternatives

You are facing a financial hardship and want to stay in your home. **If you know your situation to be only temporary, your best bet is to speak to your mortgage lender** about what options are available to lower your monthly payment.

Here are a few options:

COVID-19 ERA MORTGAGE ASSISTANCE

At the time of this writing, the novel Coronavirus has stalled the world in its tracks for over a year. Local, state and federal mortgage assistance programs are available to those who have been financially impacted by the illness.

At the Federal level, the CARES Act protects struggling homeowners from foreclosure and allows some degree of payment forbearance or reduction.

For more information, go straight to the source at the Consumer Financial Protection Bureau.

Also check your local and state government websites for COVID-19 related mortgage assistance programs. Some cities have implemented **grant programs and financial assistance** for struggling residents. If you can afford your mortgage payment right now but not much else, there may be local assistance to help pay for utilities and groceries.

— For example:

Homeowners of Washington, D.C. may qualify for the D.C. Mortgage Assistance Program — a loan program offering up to $5,000 monthly for 6 months to pay for mortgage expenses. Learn more about DC MAP.

LOW EQUITY REFINANCE

Perhaps the best option for those who want to stay in their home but don't have sufficient equity for a traditional refinance. Loans that are held by Fannie Mae may be eligible for HIRO — a "High Loan-to-Value Refinance Option".

Freddie Mac offers a similar program — FMERR, or Freddie Mac Enhanced Relief Refinance. In both programs, a homeowner may be able to refinance to different loan terms even if they have 0 or negative equity in their homes.

Call your current lender to ask them if you qualify for a low equity refinance program.

LOAN MODIFICATION PROGRAMS

Private lenders also have options for homeowners to modify the terms of their conventional or government-insured loans.

If eligibility requirements are met, a struggling homeowner can revise their loan to a lower monthly payment.

The modification may be temporary or permanent, and may result in a ding on your credit score and credit report.

If the modification is temporary, or only a trial, negotiate with your lender to *not* report the change to the credit bureaus. (Just be aware that any missed or late payments to date will have already affected your credit.)

REQUEST A TAX REASSESSMENT

If your home's value has declined but is being assessed at a higher tax rate, contact your local tax assessor's office to request reassessment. They'll want proof that your home isn't worth as much as it's being taxed for, so be ready to spend $300 - $450 on an appraisal. Remember that taxes change year-to-year, so the amount you save on a lower tax bill should be greater than your appraisal fee.

— Did you know?

Washington D.C. homeowners who are facing foreclosure may be eligible for the HomeSaver program. Residents should apply quickly, as the program will close May 14, 2021. Learn more on the dchfa.org website.

In the end,

- If you're ineligible for mortgage assistance programs;
- If no amount of number-crunching can give you an affordable monthly payment;
- If your hardship is expected to be long term or permanent; *and*,
- If you suspect your house is currently worth less than the amount remaining on your loan;

a short sale may be your best solution.

The short sale process carries its fair share of stress and financial impact, but with an experienced team of professionals on your side, you can come through this virtually free and clear.

Remember that your house is just 4 walls and a roof. It used to be an asset. Now it's a liability. Don't let your attachment to your property risk your family's financial security.

Your home is where *you* make it.

3. Assemble Your Team

If you believe your financial situation requires you to sell your home, you've probably already consulted a few online resources to see what your home might be worth.

If the proceeds from the sale are not enough to cover your mortgage balance or closing costs, you'll need a team of professionals to help you negotiate a short sale with your lender.

Here's how to navigate this critical step:

— *WARNING*

Do not discuss the possibility of a short sale with your lender on your own. You don't want to risk saying the wrong thing and hurt your chances for approval. Plus, some lenders have designed their own short sale process that could indebt the homeowner with a personal loan or post-sale deficiency judgment to cover the shorted mortgage. Do not work with your lender directly. Leave the process to the pros.

1. Find a Broker

Engage 1 or 2 local real estate brokers or agents who are specialized in handling short sales.

If short sale professionals are nonexistent in your immediate locale, expand the search to your local county, or even metro area. Don't settle for a real estate agent with little-to-no short sale experience. **Hiring a specialist is far more important than hiring local.**

Browse through their websites and read client testimonials. **Look for these characteristics of a top short sale specialist:**

- Communicative
- 100+ short sale transactions
- 20+ years experience in real estate
- Killer negotiation skills
- Glowing testimonials
- Has the full spectrum of local real estate professionals on speed-dial, especially attorneys and short sale negotiators.

— *TIP*

Don't be swayed by a broker's short sale or distressed property certifications. Many of these are "pay-to-play" designations or require a 1 - 2 hour online class in order to become certified. Seek out the pros who have 100 or more short sale transactions under their belt. There is no substitute for real world experience.

2. Assess Your Property's Value

Schedule an in-home visit with each broker to assess your home and financial situation.

The broker will have two goals when meeting with you: **1) To assess the current market value of your property**; and **2) To gauge the likelihood of a successful short sale.**

Be upfront about your finances. Explain your assets and liabilities, and the timeline of your hardship. Remember, you'll want them to be fully equipped to fight for a successful sale on your behalf.

Disclose all liens against your property, including unpaid taxes or HOA fees. These can be more tedious to handle but an experienced short sale team will be able to navigate them with ease.

After your meetings, each broker will conduct a **Comparative Market Analysis (CMA)** or a **Broker Price Opinion (BPO)** to determine a marketable list price and the extent of a mortgage shortage.

3. Sign a Listing Agreement

Once you decide on a broker to represent you, they'll have you sign a listing agreement and explain the next steps for listing your property for sale.

They'll also introduce you to 1 or 2 attorneys who can represent you to your lender and negotiate the short sale on your behalf.

You'll work with your broker and attorney at the same time, and they in turn will be in constant communication with one another.

> *— TIP*
>
> ***Be wary of a broker or agent who claims to be able to negotiate the short sale on his or her own (unless they are also licensed attorneys). Most states prohibit real estate agents from discussing financial matters with lenders because it's considered a form of practicing law.***

4. Hire Your Attorney

As soon as you have a listing agreement in place with a real estate broker, they'll introduce you to the legal team who will negotiate the short sale with your lender.

This will usually be a local attorney's office that specializes in real estate or bankruptcy law. They shouldn't be affiliated or "partnered up" with your broker (as that would be a conflict of interest), but they should have a strong-standing working relationship with them.

It may be an attorney who represents you, or someone on their staff called a ***short sale negotiator***.

The short sale negotiator won't necessarily have a license to practice law, but they will have hundreds or even thousands of successful short sale transactions under their belt.

If you're happy with the law firm that your broker recommends, the **next step is to sign a retainer agreement with them.**

Now, before you say, "I can't afford my mortgage payments, let alone attorney fees!" — a good attorney will include their legal fees in the lender's closing costs. **So *most* of the time, the lender will foot the legal bill.** Why? Because it's in their best interest to do so.

Remember, your lender is potentially avoiding a very expensive and tedious foreclosure by working out a short sale with you. They're also unloading another "underwater" home off their books — something you can bet they wish they did more of prior to the market crash of 2008.

A qualified short sale attorney or negotiator is worth his or her weight in gold. **Not only will they mediate a successful sale, but they'll also know how to negotiate some key clauses:**

Deficiency Waiver

Most states allow lenders to pursue the mortgage deficiency as a personal liability after a short sale closes.

That is — **the lender may be allowed to sue the homeowner** for the outstanding mortgage debt, plus legal fees. If the homeowner is unable to pay, they may come after other assets or future wages.

At the time of this writing there are **only 12 "non-recourse" states** — states that prohibit lenders from seeking deficiency judgments after a short sale or foreclosure:

Alaska, Arizona, California, Connecticut, Idaho, Minnesota, North Carolina, North Dakota, Oregon, Texas, Utah and Washington.

Even if you live in one of these non-recourse states, they vary on what they prohibit, so **you could *still* be on the hook for a giant bill** after your house sells.

A short sale attorney or negotiator, however, will know how to get the lender to waive their rights to a deficiency judgement. **(i.e. You won't be on the hook for any unpaid mortgage balance.)**

If peace of mind and rebuilding your financial future are important to you, ***this alone is the #1 reason to hire a qualified attorney.***

Relocation Assistance

It may come as a surprise that many **banks will also pay the short seller a "cash back" allowance** just for staying in the home and maintaining it while waiting for the settlement.

Banks might call this a "relocation assistance" fee (to help you move after the sale) or simply call it a seller incentive to keep the house looking nice while it sits on the market.

The amount varies by bank, but your skilled attorney should ask the lender to pay you *something*.

They may negotiate the incentive as moving costs or simply a payout to keep the electricity and water running. The amount could be as much as $10k, but more often than not a seller will walk away with $1,000 - $3,000 cash in pocket.

($3,000 seems to be a standard relocation payout with many large banks ever since the government's HAFA relocation assistance program expired at the end of 2016.)

Credit Reporting

A lesser-known benefit of hiring an attorney is their ability to ask the lender not to report your continuing payment delinquencies to the credit bureaus.

This doesn’t always work out in your favor (sometimes it’s out of the loss department’s control), but even if your attorney can *save you from 1 negative reporting*, that’s a huge win for your future. Each negative report lowers your credit score and hurts your ability to buy another home sooner.

Hiring an experienced team to negotiate a short sale on your behalf is perhaps **the most critical step in the short sale process**.

Don’t be afraid to hire the pros based on your inability to pay them. **Both your listing agent *and* your attorney fees are *most always* paid for by the lender.**

In other words — with virtually no out of pocket expenses, you’d be crazy *not* to hire an experienced short sale broker and attorney.

This is not the time to call on your attorney friend who specializes in intellectual property law, nor your real estate agent cousin from the next county over.

The right team can not only navigate the ins and outs of any short sale scenario; but they can market your home for sale properly and attract a buyer who’s willing to work with the non-traditional home-buying process.

4. Listing Your Home for a Short Sale

While you work with an attorney to gather the documents needed for your short sale proposal, your real estate agent or broker will list your home for sale.

The Listing

Listing a short sale on the market involves a bit more strategy than listing a traditional home sale. **The specialized short sale agent or broker will price your home based on:**

- **Recent comparable property sales**
- **Current market conditions**
- **The condition of your home**
- **What they know about dealing with your specific lender**
- **Plus the extent of your mortgage delinquency and financial duress**

The listing itself will disclose that it's a short sale. This might be written as "pending lender approval," or "subject to 3rd party approval."

The listing may also mention that it's being sold in "as is" condition, more or less letting potential buyers know upfront that the seller and lender are not able or willing to pay for repairs.

— TIP

Resist the urge to fix up your house prior to selling. If you're already under water on your home, spending any money on repairs or cosmetic fixes is no different than throwing your hard-earned money away.

An exception to this would be if your home has any perceived health and safety issues. A buyer may not be able to get a mortgage for a property with peeling paint, for instance, if the house was deemed a risk for lead paint. In this case, your broker might recommend repainting the area.

The Offer

Whether you receive one offer or several, there's more to consider than just accepting the highest bid. You want an offer that has the best chance of being approved by your bank.

The strongest offers look like:

- ✔ As close to fair market value as possible
- ✔ Equitable split of closing costs
- ✔ Limited contingencies
- ✔ Buyer is pre-approved for a loan or can show proof of funds
- ✔ Buyer is flexible to withstand a longer closing process
- ✔ Buyer is willing to engage in negotiations with your lender, if needed

The very nature of a short sale tends to attract lowball offers; it's a tedious and long process with no guarantee of success, so buyers tend to view them as deals to be had.

Banks, however, don't normally approve lowball offers. They'll order their own appraisal and expect a fair price as close to market value as possible.

TIP:
When it comes time for your lender's appraisal, it's critical that your listing agent be present. The face-time with the appraiser is another opportunity for your team to represent your financial hardship and all the unappealing qualities of your home. It's a delicate dance, and the experienced short sale agent will perform it well.

Once you have a purchase offer in place, your broker will send the paperwork to your attorney so he or she can include it with your short sale proposal.

5. Preparing the Short Sale Package

As mentioned previously, the engagement with your attorney is separate from the listing agreement with your Broker — although the pair will work very closely together on your short sale.

The attorney or negotiator assigned to your case will want to get started on the “short sale package” or “proposal” right away; especially if a financial hardship is present. Time is of the essence to get your paperwork in and approved by your lender before they start foreclosure proceedings.

Preliminary Docs

The attorney’s office will ask you to fill out some preliminary paperwork to help them get better acquainted with your case. This may include:

- **Attorney contract** & retainer agreement;
- **3rd party authorization** form, so they can speak to your lender on your behalf;
- A **“do not contact” form**, requiring your lender to communicate directly with your attorney;
- **IRS Form 4506,** to request copies of your tax returns;
- An **intake form** or questionnaire about your financial accounts, monthly expenses, and hardship;
- A **written request** to begin short sale proceedings.

It is in your best interest to be truthful and transparent about your unique situation. This includes being upfront about all of your financial accounts and assets, even if you're afraid they can be used against you. **Remember that your attorney works for *your* best interests and they'll work hard to protect your financial security.**

The Short Sale Package

Once they are officially engaged, the assigned short sale negotiator will contact your lender's loss mitigation department to get the process started.

Most lenders require the following list of documents:

- A completed short sale application (if provided by your lender)
- Your hardship letter or affidavit
- Copy of the Buyer's purchase contract
- A preliminary closing settlement statement (with estimated closing costs)
- Your broker's recent CMA or BPO, showing local comparable sales
- Last 2 years of tax returns
- Paystubs from the last 30 days (or business bank statements and Profit & Loss statements from the past year if you're self-employed)
- Bank statements from the last 60 days
- Copies of other income statements, if applicable (Social Security, VA benefits, annuity, retirement distributions, etc.)

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- Copy of your most recent mortgage statement (for all mortgages)
- A list of monthly expenses
- Proof of clean title
- Copy of a recent utility bill showing your name and address
- Copy of your driver's license
- Homeowner Association contact info, plus monthly dues owed (if applicable)
- Copy of Homeowner Association's policy regarding resale (if applicable)

All **documents should be recent** and pertain to each person listed on the mortgage and property deed. Be prepared to show additional documents, including anything needed to **prove your specific hardship** (such as divorce filings, medical diagnosis, etc.).

Finally, your listing agent and attorney will supply your lender with a formal estimate of closing costs. This is a carefully prepared document that shows the lender the extent of their loss and how much they'll have to pay out at closing.

These closing costs, along with the bulk of the short sale package, tend to spark stressful negotiations for all parties involved.

Once again, it pays to have an *experienced* short sale team on your side to navigate through all the potential scenarios.

About the Hardship Letter or Affidavit

The hardship letter is a critical piece of your short sale package. It should be about one page, factual, and to the point.

It is not an opportunity to express anger, frustration, or cynicism. Don't blame your company for firing you, your ex-fiance for leaving you, or get political. It is also not the time to be optimistic about what the future may bring.

In short, your hardship letter should contain:

1. Your contact info (name, address, phone, loan number)
2. Statement requesting approval for a short sale
3. In the body of the letter, explain:
    - How you encountered a hardship that was beyond your control;
    - What you've done to try to resolve or alleviate the hardship;
    - Why your local market has not upheld your original house value;
4. Conclude that a short sale is the only solution left in order to prevent foreclosure.

Your negotiator will review your letter to ensure it supports your case.

Your negotiator may wait to send the entire short sale package to your lender all at once, or they may send the documents as they become available.

Some lenders may not accept documents or discuss short sale terms without a purchase offer on the table. However, if the homeowner is in financial distress and a foreclosure is imminent, **your attorney will work with them to halt foreclosure proceedings** and get the short sale process started right away.

6. Short Sale Review, Negotiation, and Closing

Your short sale negotiator or attorney will submit the short sale package to your lender and continuously follow-up to ensure that your case stays front-and-center on the lender's desk.

During the review period, the lender may request additional documents and order their own appraisal of your property.

Very rarely will a lender approve a short sale proposal as is without negotiating terms to reduce their losses. They may outright deny your request, reject a specific clause, or counter-offer a closing expense.

They might also demand that your Buyer cover more of the closing costs — even if they're not costs that a buyer typically pays for.

It's imperative that your listing agent keep an open line of communication with your Buyer throughout this process. Some buyers aren't willing to wait out the weeks or months of negotiations. Some aren't willing to budge on what expenses they'll pay for.

Keep them up-to-date on how the process is going and be transparent about any delays. The last thing you want is for your Buyer to back out of the deal when you're just steps away from the finish line. The more they know, the more willing they'll be to see it through.

The **typical short sale review and negotiation process can last anywhere from a couple weeks up to 120 days.** If you have an FHA loan, expect annoyingly long delays. Other complex cases can last a year or more. Distressed properties can take even longer to get a qualified offer.

In the end, the successful outcome of your short sale rests in the hands of the experienced team you hire.

Your listing agent and attorney will work together throughout the entire process. They'll go to bat for you. They'll compromise only when it suits your best interests. **And the right team, *most* of the time, <u>will win the short sale approval</u> .**

7. Recover & Repair

Selling your home via short sale can be a long and stressful ordeal, especially if you are struggling financially. But it's also one of the best solutions for avoiding the damaging effects of foreclosure. Be proud of yourself for sticking through the process and take a moment to breathe a sigh of relief.

Even the most successful short sale outcomes will have some degree of damage. **Once the dust settles, make a plan to repair your credit and address the potential tax liability.**

Credit Damage from a Short Sale

You can expect a **credit score reduction of about 50 - 100 points** after a short sale, mainly caused by late or delinquent mortgage payments. It can take **1 - 2 years of good spending habits** to recover your original score.

After your short sale closes successfully, your mortgage should be listed as ***paid*** or ***settled*** on your Credit Report. Worst case scenario, your lender holds you personally liable for the mortgage balance owed and this becomes another debt listed on your Credit Report.

Improving your credit is a marathon, not a sprint. There are no quick fixes, but the sooner you right your score, the sooner your buying power will be restored.

Tax Consequences

When a debt is cancelled it is normally considered taxable income. The same is true for the mortgage debt that a bank forgives in a short sale transaction. **The bank will mail you Form 1099-C, "Cancellation of Debt,"** and you're responsible for claiming it as income on your tax returns.

Some exceptions apply here, like if you filed for bankruptcy or were insolvent when the debt was forgiven.

At the time of this writing, the **Mortgage Forgiveness Debt Relief Act of 2007 has been extended through 2025**. The law excludes the forgiven debt from being taxed as additional income. Caps and exceptions apply again here, but many people who receive a 1099-C from their bank will not have to report it as income on their tax returns.

All situations are unique so consult a qualified accountant to give you advice specific to your circumstances.

Credit and Debt Counseling Resources

Numerous state and federal agencies provide credit and debt counseling services for struggling Americans. Many of these services can be free of charge if you can't afford to pay, but it's important to do your research before choosing one. Less-than-reputable offices may charge high fees that can dig you deeper in debt.

The Federal Trade Commission provides a great article about how to choose a credit or debt counselor. The U.S. Department of Justice website provides additional resources, including a list of approved credit counseling agencies by state. Be sure to research the reviews and complaints of any counselor you find prior to contacting them.

Your Next Move

Short-selling your home can carry long-term consequences, but many people will find their buying power and credit scores restored in around two years (with good spending habits).

If you need to buy a home sooner, **look for mortgage programs designed for buyers who previously short-sold a home**.

Government programs are more forgiving, especially if you were not in default on your previous mortgage payments.

But even conventional mortgages will work with a previous short-seller, providing that they have 20% down and can prove that the circumstances that caused them to "sell short" was a one-time occurrence beyond their control (such as divorce, illness, job loss or death of an income-earner).

Shop around for the best mortgage program for your financial situation, and **work with a real estate agent who's up-to-date on all the latest government grants** for buying a home.

The Fed City Team at CENTURY 21 Redwood Realty in Washington, D.C. keep tabs on federal grants that can help you get up to $10,000 of downpayment assistance and up to $7,500 off of closing costs. If you want to buy a home in the Washington, D.C. area, call the Fed City Team today.

8. Closing

We hope this comprehensive guide to short selling real estate was helpful. Short sales are no walk-in-the-park, but they aren't nearly as damaging as a foreclosure.

If you encounter a hardship and are on the brink of mortgage default, **remember these three important takeaways:**

1. **Every situation is unique** (i.e. Don't assume you won't qualify for a short sale)
2. **Be proactive and act early** to avoid mortgage delinquencies
3. **Hire professionals with extensive short sale experience**

Most of all, don't despair. Short sales are fairly routine transactions for lenders and for struggling homeowners alike. You *will* get through this.

Thanks for reading.

About the FED CITY TEAM at CENTURY 21 Redwood Realty

The Fed City Team (https://www.callthefeds.com/) in Washington, D.C. is a full-service brokerage dedicated to their motto, **"Everyone deserves a house."**

In addition to helping buyers and sellers make their house dreams a reality, **Broker Marc Dosik** and his team have extensive experience working with relocation companies, real estate investors, and buyers or sellers facing financial hardship. The Fed City Team make it their business to stay up-to-speed on all the local and federal grant programs that help individuals afford down payments, closing costs, relocation assistance, and more.

Since 1996, Marc has expertly **brokered over 130 short sales in the Washington, D.C. metro area.** He holds close business relationships with local attorneys and short sale negotiators who mediate the best settlement for the client, *every time*.

No one deserves to be stuck in a house they can't afford. **If you're on the brink of mortgage delinquency with an "underwater" home and you live in the Washington, D.C. metro area, call Marc Dosik and the Fed City Team today.**

FED CITY TEAM at CENTURY 21 Redwood Realty

843 Upshur Street, NW

(Petworth neighborhood)

Washington, D.C. 20011

Call the Feds: 202-543-7283

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