

A dark blue background featuring a faint, stylized illustration of several houses with gabled roofs and windows, arranged in a row.

Short Sale Guide



California Short Sale Solutions
Industry leading short sale advisors

Welcome to California Short Sale Solutions

California Short Sale Solutions is here to help. As an industry leader in short sale negotiations and short sale counseling, we specialize in helping people get rid of their mortgage debt. We are available to represent anyone wanting to perform a short sale of their home anywhere in California. Our services are available at no-cost to the homeowner. Call us today at **1-800-760-9156** to get your questions answered. We have helped eliminate over \$80 million of mortgage debt and have obtained over \$1 million in relocation funds for our clients.

Frequently, our clients are facing financial difficulties for reasons beyond their control and simply need a way to resolve mortgages they can no longer afford. Additionally, we are representing people who can afford their homes but decide their negative equity position is no longer worth supporting.

Every short sale situation of a home is unique. Our approach is tailored to the needs of you and your situation. We are always here to advise and guide you through this process. We make certain to take the necessary time needed to ensure you understand every step of the transaction.

If your goal is to get out from underneath what has become an awful investment, you've found the right company. Our job is not done until your credit is rehabilitated and you're looking at your next home at **TODAY's** rates!

Short Sale Answers

Have a question? Here are the answers to some of the most often asked questions people have about short sales. If you are unable to find an answer to a question you have, give us a call at 1-800-760-9156.

What is a short sale?

Simply put, a short sale occurs when a lender agrees to take less than the amount that is owed on a piece of property. The benefit of a short sale occurs when your net proceeds from a short sale are insufficient to cover your loan balance, but the lender agrees to take a lesser amount. A successful short sale includes the lender forgiving any remaining loan balance, clearing you from any future contractual obligations to the lender.



Short Sale Example

Total Loan Balance: **\$400,000**

Your Home is Worth: **\$220,000**

You are Upside Down: **\$180,000**

California Short Sale Solutions negotiates with your lender and successfully short sell your home for **\$220,000**. Your unpaid balance of \$180,000 gets forgiven, so your loan balance becomes **\$0**.

What are some short sale benefits?

There are many benefits and seasoned programs to help distressed homeowners who wish to pursue a short sale:

1. Government sponsored relocation assistance is available to qualified homeowners.
2. Lenders are offering monetary compensation for homeowners who short sale. The major lenders who settled a lawsuit, including Bank of America, Chase, and Wells Fargo are offering some homeowners up to \$30,000 for short selling in certain situations. Other lenders offer different benefits.
3. All costs associated with performing the short sale are paid by your lender. This means there are no out of pocket expenses for you when you perform a short sale.
4. By law, all mortgage debt is considered forgiven when the short sale is completed. This means that your lender cannot come after you for any remaining mortgage balance.
5. California laws and clarifications by the IRS allows you to avoid paying taxes on a short sale in most situations
6. You can live in the home until it is sold.
7. Lenders are not permitted to foreclose on your home during the short sale process.
8. A short sale is less detrimental to your credit than a foreclosure.
9. Outstanding deficiency judgements, such as HOA, can be forgiven or negotiated through a short sale settlement. Foreclosures can allow the opportunity for a lender to come after you for any outstanding debt still owed.

What is the short sale process?

Step 1: Determine if a Short Sale is Right for You.

Give us a call at [1-800-760-9156](tel:1-800-760-9156) and we can determine if a short sale is your best option. Your other options may include refinance, modification or deed-in-lieu.

Step 2: Obtain Required Documentation

Most lenders require specific documentation, and they don't all require the same thing or use the same forms. Normally the first required document is a hardship letter, which is sent to the lender and explains why a borrower can no longer afford their monthly mortgage payments. The documents are gathered and prepared to be sent to the lender. This step usually takes between 7 and 14 days.

Step 3: Market the Property

We market the home to potential buyers through various channels, including California's Multiple Listings Services (MLS). You can live in the home during the short sale process. This step usually takes between 20 and 60 days.

Step 4: Negotiation of the Short Sale

Once there is an offer on your property, we submit the offer and paperwork to the lender and negotiate the deal. Negotiations can be tedious and take time. It is best practice to continue marketing the home to get backup

offers. If the first offer was not high enough, the lender will counter and tell us they need a higher offer. An ideal offer is one that is close to the appraised value of the house less the consideration of any repair work or time involved for the transaction. During this time, we also request monetary funds for relocation assistance from available government and lender programs. This step usually takes between 10 and 30 days.

Step 5: Finish the Transaction We receive approval from the lender to proceed with the short sale. The next and final step is to begin escrow and close the transaction. Traditional escrow time is 30 days. The total time to process a short sale is normally between 3 and 6 months.

How do I apply for a short sale?

Applying for a short sale is easy! The initial process involves paperwork and forms, which we will send to you to fill out and return. You will be sent a standardized listing agreement and advisory forms, which are provided by the C.A.R. (California Association of Realtors). Depending on the number of lenders and which lenders you have, you will also receive short sale authorization forms to sign and return. These forms give us permission to speak to your lenders about your mortgage, begin the short sale negotiation process and allow us to list your property on the California Regional Multiple Listing Service. If you are ready to begin short sale qualification, start by applying below.

How long does it take to complete a short sale?

The entire short sale process takes an average of 3 to 6 months depending on the number of loans and property location. Some cases, however, can see the process completed in as little as two months. Varying from lender to lender, it can take two weeks or as long as 60 days to receive an approval of a short sale from a lender. Some lenders have their own dedicated offices working on short sale packages while other lenders outsource. Even with an approval, it may take 2-4 months for the home to be sold. During the short sale process, you are allowed to live in the home and California law protects your home from foreclosure.

What are the qualifications for a short sale?

A short sale is allowed to be performed on all types of properties. From condominiums or retirement communities to farms and single family residences, the main qualification for a short sale is that you owe more on your loan than what your property is worth. Secondly, you must be suffering some sort of financial, physical or mental hardship. Many lenders have dropped the required hardship explanation, however. A qualified hardship can include many things, such as:

- Loss of employment or reduced hours
- Major illness or medical expenses
- Divorce
- Increased bills

- Higher living expenses
- Investment Loss
- Changing loan terms or loan payment increase
- Concerning loan terms/High interest rate
- Inability to save for retirement
- Increased anxiety
- Loss of home equity and inability to refinance

A hardship letter is simply a letter written to the bank explaining why the homeowner would like to pursue a short sale. Our short sale services include helping you prepare and send a hardship letter as part of the short sale application.

While some lenders do not require a hardship explanation, other lenders will require at least some explanation of why you cannot pay your mortgage. Our experience is that all banks and lenders have very lenient rules about what they consider to be a hardship. A common misconception about short sales is that you have to be out of money to qualify. Having cash savings in the bank, or even situations where you are currently making more money than you have in the past will not necessarily disqualify you from a short sale.

How can I avoid short sale scams?

Tactics are being used by unethical short sale agents who are preying on the vulnerabilities of distressed homeowners. The most prevalent of these tactics is instant short sale flipping, which is known in the industry as short sale flops.

In a basic sense, a short sale flop occurs when an agent hides legitimate offers from the property owner. Instead, they use an investor to purchase the property who then instantly sells using the previous short sale agent and buyers who put previous offers on the home. The short sale agent makes double commissions, plus takes a cut of the profit made by the investor. In an effort to curb this practice, lenders have been requiring buyers to keep the property for a certain amount of time before attempting to resell.

The biggest red flag for an unethical short sale agent is one who does not keep you informed and refuses to let you know when offers have been submitted. It is also important that the agent works for a company that disallows this type of activity. Also, be aware of any agent or company who requires money upfront, as this is illegal. Investors should only be consulted by the short sale agent if the property is unsellable due to its current condition or uniqueness, or if the home has an upcoming foreclosure date that won't be postponed without a valid offer.

Can I do my own short sale?

No. In California, you need a licensed and experienced broker to perform a short sale. Most Real Estate Agents do not have the knowledge or skill to perform a successful short sale, which is why many agents refer homeowners to us. California Short Sale Solutions has a fantastic success rate and a reputation for being the best in the industry.

Can I short sell a rental or vacation property?

Yes, it is possible to short sale a rental property or non-owner-occupied property, which falls into the same category as vacation homes and vacant homes. This type of short sale is treated slightly different than an owner occupied short sale, but the same basic procedures apply. If you currently have tenants, one of the main differences between an owner-occupied property and rental property are the rules and notifications you must give if you wish to evict before the short sale occurs. If your tenants are on a month-to-month lease and have lived in the property for more than a year, they must be given notice at least 60 days in advance. If they have lived in the property for less than a year they will need to be provided at least 30-day notice.

If your tenants are interested in purchasing the rental property themselves, they are allowed to as long as they qualify for a loan or have cash to purchase the home. If your tenants are family members or relatives then they are not allowed to purchase the home. Some property owners wish to allow their tenants to continue to live in the property even after the short sale completes. This is entirely possible and we have a network of investors who would purchase the property and rent it to the same tenants that live there now.

Every short sale situation is unique and complex. Because of this, it is important to talk to a qualified expert to ensure that you are aware and understand possible income tax owed in certain situations and some of the rules involved if you have tenants.

What if my home needs repairs?

You are allowed to short sale your home even if it requires minor to major repairs. Because a home in a short sale is offered as-is, the buyer is not allowed to ask the homeowner to spend any money on repairs, even after an inspection is completed. Extensive repairs will be reflected in the list price and will be considered by potential buyers.

Can I short sale if I have an FHA loan?

Yes. Short sales with loans acquired through the FHA program are almost identical to short sales performed with normal lenders. In our experience, the main difference between the two is that the use of an investor to purchase the property is nearly impossible. The Federal Housing Administration almost always requires the selling price of the home to be the appraised market value.

I have a reverse mortgage. Can I short sale?

Yes, you are allowed to short sale your home if you currently are enrolled in a reverse mortgage. In fact, less paperwork is needed to perform the short sale but all of the same benefits apply. You are allowed to live in the property during the short sale process and the process takes an average of three to six months. Call us today at 1-800-760-9156 to see how you can benefit.

Can I do a short sale if I have a second mortgage?

Yes. Part of the short sell negotiation process is to make sure the debt of the second mortgage is forgiven. Even if you have two different lenders, it is more beneficial for the subordinate lender to settle with a short sale. If a property goes to foreclosure the second lender normally gets nothing.

Can I short sale with a loan modification?

Conventional Loans

Conventional Loan guidelines, which are written and established by Fannie Mae and Freddie Mac, state that a borrower must wait a minimum of two years after the closing date of a short sale. The borrower must also have 20 percent for a down payment, though a smaller down payment is accepted with an extended waiting period.

Extenuating circumstances explained to a Freddie or Fannie Mae lender and proven in written form may shorten the wait limit.

FHA Loans

Federal Housing Authority Loans will allow you to receive a loan depending on your credit history and reasons for a short sale. Under normal circumstance, you can qualify for an FHA loan with as little as 3.5 percent down payment and a waiting period of three years. The FHA also has programs that allow borrowers to qualify for a loan sooner than three years for those who experienced hardships like job loss, illness, death and in some instances divorce.

Typically to qualify for an FHA mortgage you must have a credit score of 620 and above and have an income-to-debt ratio less than 41 percent. Those who wish to be on the fast-track of loan qualification may also have to participate in an FHA-approved counseling program and provide full documentation of hardships and credit history for the past year.

Conventional, Private Lenders

Most other lenders follow Fannie Mae's guidelines for post-short sale mortgages, but can be more flexible in the terms of the waiting period. Depending on the borrower's credit score, explanation and down payment, some lenders allow the purchase of a new home in as little as 90 days from the close of their previous short sale.

Your Credit Scores

Regardless of the waiting period, every lender will want to see that you have established good credit after a short sale. This can also mean that with the higher credit score you have, the lower your interest rate will be. In normal

circumstances, you can help boost your credit score after a short sale by paying your bills on time. Some of the other major factors in boosting credit scores include keeping credit balances low, maintaining a low number of credit accounts and monitoring credit reports for errors. Over the years we have had experience with different credit repair counselors, so give us a call if you need advice.

Do you offer the HAFA Program?

The HAFA incentive program has stopped accepting applications as of January 1, 2017. Other relocation assistance programs are still available from specific lenders and areas. Call us at 1-800-760-9156 for program alternatives.

What is the HAFA Program?

The Home Affordable Foreclosure Alternatives Program was a federal government program intended to assist lenders and homeowners by streamlining the short sale process. It was developed to help homeowners settle their mortgage debt to avoid going through a foreclosure. When the program was implemented in 2009, numerous complaints were heard industry wide about the feasibility of obtaining help through the HAFA program. The problems were so big in fact that its brother, the Home Affordable Modification Program (HAMP), was considered a failure. The HAFA program allowed homeowners to possibly receive up to \$10,000 for relocation expenses.

HAFA Eligibility:

If you do not meet eligibility for the Home Affordable Foreclosure Alternatives program, other programs with similar benefits can be available to you. Some of the qualifications are:

- Your home is worth less than what you owe to the lender
- Your current mortgage was taken out on or before January 1, 2009
- You are experiencing a hardship and cannot afford your current monthly payment
- The home is your current principle residence **OR** the property has been rented out or vacant for less than 12 months
- You are more than 60 days late on your mortgage payment
- You have cash reserves less than \$5,000 or less than three times the current mortgage payment
- You are not less than 60 days from a foreclosure sale date
- Your outstanding loan debt is not more than \$750,000

Are there other relocation program funds available?

Many lenders have their own programs to provide relocation assistance for homeowners wishing to pursue a short sale. We will always apply for relocation assistance through all programs that a lender offers. Some programs such as California's Transition Assistance Program (TAP) have exhausted their relocation assistance funds.

Can I Receive Relocation Assistance for a Short Sale?

Yes, there are monetary incentive programs for struggling homeowners who wish to obtain a short sale. The California Transition Assistance Program (TAP) is currently the most popular relocation assistance program, with new funding announced in April of 2016. Some of California's largest lenders have their own private programs for veterans, seniors and special needs homeowners. These programs may offer up to \$30,000 for relocation expenses.

In previous years, the most common and popular incentive program was the Home Affordable Foreclosure Alternatives Program (HAFA). The HAFA program expired at the end of 2016 and there have been no current attempts by the government to renew it.

California Short Sale Solutions will always apply for all relocation assistance programs during the short sale process. Distribution of monetary assistance is determined by your lender while following guidelines set forth by the state and federal government.

What is the Mortgage Debt Relief Act?

The Mortgage Forgiveness Debt Relief Act (MDRA) was a government bill that offered relief to most homeowners who would normally owe taxes on the forgiven debt after performing a short sale. Under previous US law, when debt is forgiven by a commercial lender (Bank of America, Chase, US Bank etc.), that debt would normally require the borrower to include the amount forgiven as taxable income on tax returns. This would mean the borrower would have to pay income taxes on their forgiven debt. When the MDRA was in place, a borrower did not have to pay income tax on forgiven debt in the most common short sale scenarios. The Act initially became law in 2007, expired at the end of 2014 and benefited both lenders and borrowers. Laws and guidelines have been provisioned in California to preemptively protect California homeowners now that the MDRA has expired.

For example, if the lender forgives \$50,000 of debt to the homeowner after the completion of a short sale, under traditional tax laws that \$50,000 is considered income. If your combined federal and state marginal tax rate is 25%, you would then owe \$12,500 in taxes. Under the Mortgage Forgiveness Debt Relief Act, you would have been allowed to exclude from income the discharge of debt, and therefore not have to pay the taxes associated with it.

California Homeowners are Still Protected

California Senator Barbara Boxer has clarified with the IRS that under California law, those who perform a short sale on their primary residence are assured that no federal tax penalties will be incurred even though the Mortgage Debt Relief Act has expired. Technically speaking, under the anti-deficiency provision of Code of Civ. Proc. 580e, the debt would be a non-recourse obligation and for federal income tax purposes the homeowner will be considered not having COD income. Furthermore, the California Franchise Tax Board also states that distressed California homeowners who short sale are protected against any state income tax when the sale of the home is completed.

What are the income tax ramifications?

Because every short sale situation is unique and complicated, there is no single tax answer for an individual who wishes to short sale their home. Current California laws and statutes protect most homeowners from any federal or state taxes when performing a short sale. In some situations, such as rental or vacation properties, the money forgiven by a lender may be taxable according to IRS regulations.

An IRS information letter from April 2014 clarifies how to treat short sale debt forgiveness under California Code Code of Civ. Proc. 580e. The Civil Procedure generally allows the homeowner to avoid having to pay federal income tax or state income tax on debt forgiven through a short sale. The letter states that a lender who holds a deed of trust from either claiming a deficiency or obtaining a deficiency judgment from the homeowner after agreeing to a short sale, treats the homeowner's obligation as a non-recourse obligation for tax purposes. The letter and procedures stemmed from an expiration of the Mortgage Debt Relief Act at the end of 2014. It is recommended that people who have short sold their home speak to their accountant to make sure they are up-to-date on the most recent tax laws and procedures.

How will a short sale affect my credit?

The main advantage of a short sale is not having a foreclosure on your credit report. Short sales may still show up on a credit report as a "pre-foreclosure in redemption" status. Although this can result in a credit score reduction of 100 points or less, a foreclosure will usually reduce your score by more than 250 points. According to Fannie Mae, an individual that forecloses must wait 5 to 7 years, maintain at least a 680 FICO score in the last 2 years, and pay a minimum 10% down on a future home purchase. We have seen customers purchase a new home in as little as two years after their previous short sale.

What can I do if I have an upcoming foreclosure date?

The first thing you should do is not panic. Even if your foreclosure is one week or one day away, it may be possible to delay the foreclosure proceedings. Many people feel that when they receive a NOS (Notice of Sale), all of their options are gone. This is not true, as the lender will try to avoid the costlier foreclosure process.

It is estimated that it costs lenders up to \$60,000 to foreclose on a home with court and lawyer fees, so most lenders would rather take a cheaper approach. If you are serious about stopping the foreclosure proceedings, the lender will be willing to listen as long as they see an effort on your side through professional assistance. It is important to be aware of foreclosure scams and how to avoid them. A common mistake is that people will move out of the house with a looming foreclosure, but you will lose some of your rights when you do this.

Will my second mortgage be forgiven?

A second mortgage or home equity line of credit is negotiated to be settled during the short sale process, so any debt from these would be forgiven. California law SB 458 benefits homeowners who wish to pursue a short sale and have a second mortgage or home equity line of credit. With a foreclosure, California law allows lenders to attempt collection or freezing of assets for the amount of debt from a second mortgage or home equity line of credit. When a homeowner completes a short sale, all second mortgage or home equity line of credit debt is considered forgiven, which means the lender cannot pursue you for any unpaid debt.