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Welcome – Short Sale Basics

Thank you for choosing the *Robert Russell Law Group* and *Robert C. Russell, P.C. (RRLG)* to assist you in your efforts to avoid foreclosure and accomplish a “short sale” of your real property. Our team members have extensive experience¹ in all aspects of (1) Short Sale Negotiation, (2) Foreclosure Prevention, and (3) Default Resolution. We have experience in “short sales” from every angle. We are pleased that we can use our experience to be of assistance to you in this matter.

In contemplating a short sale, there are several key factors that must be addressed in every transaction. They include but are not limited to:

1. Finding the Right Seller
2. Finding the Right Buyer
3. Setting the Right Sale Price
4. Knowing the Home
5. Obtaining Documentation to Support the Short Sale Request

1. Finding the Right Seller

Short sale approval and closing can take 60-120 days or more. If you have a foreclosure scheduled tomorrow, closing a short sale before foreclosure will not happen. Therefore, you must not be in immediate risk of losing the home to foreclosure. If a sale is pending within fourteen (14) to thirty (30) days, it MAY be possible to get the sale date moved back. However, it may not. To do so, there must almost always be an offer from a qualified buyer. If that is the case then MAYBE the sale date can be pushed back. The more time we have to negotiate before foreclosure, the better.

You may need to have a good “reason for default” (RFD) and truly in need of a short sale. If the Seller is current on the home and cannot prove an imminent default, there is less of a chance that a hardship exists and that a short sale can be accomplished. However, new programs make this easier.

You may be asked by the Servicer/Investor to bring partial cash to closing or agree to remain obligated for all or part of the mortgage debt not paid at closing. An Investor/Servicer might not specifically state that after sale there is or is not a remaining balance due on the loan. Instead, the Servicer/Investor might only note that they are releasing their lien in exchange for partial payment. Releasing the **lien** does **not** necessarily extinguish the **debt**; it only releases the home as collateral for the remaining debt. These issues are also present with any second mortgage lienholder the Seller may have. Our office will attempt to negotiate a release of any remaining mortgage debt in exchange for

¹ Robert C. Russell, attorney at law, has more than twenty (20) years of experience assisting individuals, families and small businesses resolve their financial challenges. Kathleen Jamal has more than thirty (30) years experience in default resolution and mortgage servicing with large national mortgage lenders and servicers.

the proceeds received at closing, however, this is by no means guaranteed and should not be assumed. You need to consider these possibilities and determine your level of willingness, if necessary, to bring partial cash to closing and/or remain obligated on all or part of the debt after sale.

The existence of a second mortgage will extend the time to close a short sale. Typically, common sense and/or the second mortgage holder will require the first mortgage holder agree to a short sale prior to the second mortgage holder agreeing to a short sale.

You need to be aware that a short sale may result in tax consequences, i.e., you owing tax as a result of the sale. **We do not provide tax advice**. However, we are happy to provide a referral to a qualified CPA for such advice if such advice is desired.

You must be willing to cooperate all the way through the process to closing.

2. Finding the Right Buyer

As noted, a short sale can take 60-120 days or more. Thus, a Buyer has to be patient and know that they will not be able to move into the home in two weeks or even two months.

A buyer has to be realistic about the dollar amount of the offer. If they expect to buy a home for 50% of the current "as is" market price, they are generally incorrect and it is generally a waste of time and effort to seek approval of such a deal. Generally, short sales at 85%+ net of the current "as is" market price are within the range of acceptability. If the Buyer wants to start at 70% net but is willing to go up to 85% net, then the "low ball" offer might be an acceptable starting point.

3. Setting the Right Sale Price

Mortgage investors and insuring entities are the parties that set the price they are willing to accept to release their lien on the property. Presently, investors/insurers will accept no less than approximately 85% of the "Current As Is Market Value" or "Fair Market Value" to agree to a short sale. This means that the investor/insurer must receive out of closing "Net Sale Proceeds" (cash after deduction for all costs and fees, etc), **of at least** 85% (or more) of the value. Therefore, the final sales price must account for 85% or more of the value to be paid to the investor/insurer plus payment of all realtor and closing fees and costs.

EXAMPLE: Actual Home Current Market Value - \$200,000. The minimum offer likely to be accepted by the first mortgage investor/insurer is approximately \$187,000 and is calculated as follows:

<u>NOT Generally Acceptable</u>	<u>Generally Acceptable</u>
\$200,000 – FMV (85% is \$170,000)	\$200,000 – FMV (85% is \$170,000)
\$170,000 – Offer	\$187,000 – Offer
\$ 10,200 – 6% Real estate commissions	\$ 11,220 – 6% Real estate commissions
\$ 5,100 – 3% Closing Costs (Est)	\$ 5,610 – 3% Closing Costs (Est.)
\$154,700 - Net to Investor is not at least 85% of Fair Market Value (FMV)	\$170,170 – Net to Investor is at least 85% of Fair Market Value (FMV)

For FHA insured loans, the "Net Sales Proceeds" percentage is presently calculated as follows:

Listed for 30 days	Net Sale Proceeds 88%
Listed for 60 days	Net Sale Proceeds 86%
Listed for 90 days	Net Sale Proceeds 84%

If you would like our opinion of an acceptable value for a particular transaction, we would be happy to help.

4. Knowing the Home

As with any transaction, a non-cash Buyer must be able to obtain financing for the purchase. If a home needs a roof, that should be factored into the short sale plan. Thus, we ask that we be provided with a complete list of repairs and maintenance required with price estimates to address any issues. Any buyer repair credits reflected on the estimated HUD-1 must be supported by documentation evidencing the need for repair. This information is not only useful in financing matters, it is also useful in value negotiations with the Servicer/Investor.

5. Obtaining Documentation in Support of the Short Sale Request

A short sale request must be supported with documentation proving a hardship and/or a good reason why the Servicer/Investor should agree to the short sale. If you cannot or will not supply the necessary documentation, a short sale may not be possible.

In Closing

Thank you for choosing our firm to seek advice. We consider it a privilege to be able to discuss your potential options with you.

Sincerely,

Robert C. Russell, President
Robert Russell Law Group
Robert C. Russell, P.C.

This letter has been received, reviewed and understood.

Dated: _____

(initials)