# Short Sale FAQ

**Question:** What is a Short Sale?

**Answer:** A Short Sale occurs when a homeowner owes more on their property than the property is actually worth, but their bank agrees to accept less than what is owed as Payment-in-full. In other words, the bank is willing to take a discounted pay-off in order to avoid the foreclosure process

**Question:** Why are banks willing to do a Short Sale?

**Answer:** Because the alternative is Foreclosure, and the foreclosure process is usually far more costly than the discount the bank takes on a Short Sale.

**Question:** What are the benefits for the homeowner in a Short Sale?

**Answer:** The primary benefit to a homeowner who participates in a Short Sale is avoiding the devastating effects of a foreclosure on their credit. If the loan is a VA guaranteed, the successful completion of the Short Sale protects their VA eligibility for future VA mortgage loans.

**Question:** What is a Deficiency Judgment?

**Answer:** A deficiency judgment is simply the difference between the mortgage pay-off amount and the amount the lender is able to "net" in the Short Sale. Technically, the lender can pursue a deficiency judgment for the amount that they discounted loan or wrote-off in the Short Sale. When negotiating a Short Sale, the ultimate goal is to get the lender to accept the Short Sale amount as Payment in Full.

**Question:** Are there potential tax ramifications to the homeowner for doing a Short Sale?

**Answer:** When a lender accepts a Short Sale, they are cancelling or forgiving debt. The IRS considers this cancellation or forgiveness of debt to be taxable income. In order to be in compliance with the IRS rules, lenders are required to issue a Form 1099-C for the amount of the debt cancelled or forgiven. On December 20, 2007, it was signed into legislation a 3-year temporary tax relief measure entitled "The Mortgage Cancellation Relief Act of 2007". This bill eliminates any tax liability when the property is the primary residence of the taxpayer. There are some other provisions of this bill that you should be aware of, so we recommend that you download a copy by going to www.WhiteHouse.Gov or Consulting your Tax Advisor.

**Question**: What is the impact on the homeowner's credit for doing a Short Sale?

**Answer**: A Short Sale is reflected on the homeowner's credit report as something to the effect of, "Discounted Payoff, Paid-in-Full" or "Compromised Sale, Satisfaction of Mortgage". A Short Sale is far less damaging to the homeowner's credit than a foreclosure or deed-in-lieu of foreclosure.

**Question**: Why is it important to keep the Utilities on During the Short Sale?

**Answer**: When your Short Sale property comes under contract, the Buyer will likely order an inspection and the utilities will need to be on for this. If the utilities get disconnected, they will have to be reconnected for the buyers inspection, which can be very costly.

**Question**: What is a Forbearance Agreement?

**Answer**: A Forbearance Agreement is simply a fancy name for a repayment plan. In simple terms, forbearance means that a lender agrees to stall or postpone starting the foreclosure process to give the borrower a chance to catch up on late or missed payments. This Forbearance Agreement, often referred to by the banks as a special workout, usually requires that the homeowner have some money to initiate the agreement, that they now have steady income as to make their payments. What this means is your new monthly payment increases significantly to include both the regular monthly payment Plus the monthly repayment amount!

**Question**: What does it mean for the lender to "accelerate the note"?

**Answer**: After the homeowner has fallen behind on their mortgage payments and the lender has made every attempt to collect the debt owed, if the mortgage documents allow, the lender can call the entire outstanding balance due within a certain amount of time, usually 20-30 days. The lender typically will send an Acceleration Notice via Certified letter.