



WHITE PAPER REPORT



KEY ITEMS TO NOTE WITH REGARD TO SHORT SALES

A SHORT SALE MAY NOT DISCHARGE THE DEBT

Make sure you know if you will still owe your lender money (a deficiency) after the short sale. You should know this before you close the sale of your home. This will be disclosed through the terms and conditions of your short sale approval letter from the lender. Even if a lender agrees to a short sale, they may not agree to forgive the debt entirely and may require you to pay the difference as a personal obligation. This outstanding personal obligation could result in a subsequent collection action against you. For example, a lender may accept the short sale purchase price to “release the lien” on the property but still require you to pay the full amount of the original debt. You must be certain of the terms of any short sale before making a decision.

All agreements between you and the lender must be in writing. Consult an attorney to be sure if the lender is entitled to pursue collection of any deficiency. Obtain any debt forgiveness agreements with the lender in writing but be aware that the language used in these agreements can be extremely confusing and even misleading. Get the advice of your legal counsel before accepting the lender's terms.

A SHORT SALE MAY RESULT IN A HIGHER TAX DEBT

A short sale in which the debt is forgiven is considered a “relief of debt” and may be treated as income for tax purposes. The Mortgage Forgiveness Debt Relief Act of 2007 created a limited exemption to allow homeowners to

pay no taxes on debt forgiveness however only cancelled debt used to buy, build or improve a principal residence or refinance debt incurred for those purposes qualifies for this tax exemption. For more information on the tax consequences of debt relief, seek professional tax advice.

BE AWARE OF THE IMPACT ON YOUR CREDIT SCORE

The impact of a short sale on your credit score depends upon a variety of factors, including late or missed payments. A short sale may appear on your credit report as “pre-foreclosure redemption,” “paid in full for less than full balance” or other similar terms. It is possible that a short sale will have a different impact on your credit than a foreclosure or deed in lieu of foreclosure (or any other outcome). But, beware that once you miss mortgage payments, your credit rating will be severely affected. Some lenders will tell you that they will not consider you as a short sale candidate unless you are behind on payments. Do not intentionally withhold mortgage payments solely for short sale consideration without first consulting legal counsel.

THERE MAY BE A WAITING PERIOD BEFORE YOU CAN BUY ANOTHER HOME

Your ability to qualify for a loan to purchase another home after a short sale will likely be affected because of the impact on your credit score. It may be some time before a lender will loan you the money to purchase another home.

REMEMBER: There is no single or simple solution to foreclosure; every situation is unique. We strongly urge anyone facing foreclosure to seek professional advice from an unbiased third-party before making any decisions.