

# Should I Short Sale My Home?

*Homeowner's Guide: How To Survive  
The Worst Real Estate Market In History*

*\* This book and its content is not intended to give legal or accounting advice. Readers of this book are advised to seek additional information from their accountant and or attorney. The authors and co-authors are not accountants or attorneys.*

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# Chapter One

## *A National Epidemic Is Looming. Are You Ready?*

Are you stressed out about mortgage payments? Do you think your only option is a foreclosure? Is a short sale right for you? Millions and millions of homeowners are asking themselves the same questions. It is projected that over 20,000,000 homeowners will have negative equity in their homes in the very near future. In other words, they will owe more on their homes than they are worth. Over 2.9 million homes have foreclosed in the last three years and the number is only expected to grow. Expect the effects of the estate recession to ripple for years to come.

### **What can you do now?**

There is expected to be massive tsunami of homeowners who are simply making the decision to sell their homes through a short sale vs. staying in a home, hoping that one day it may be worth what they paid.

No one is safe. News stories from across the country tell the tales of both celebrities and average Americans who are all considering selling their homes through a short sale.

Selling your home through a short sale doesn't need to be a shameful, life-ruining experience. Sometimes short selling your mortgage simply makes smart economic sense, especially for homeowners who find themselves "upside down" — that is, they owe more on their mortgage than their house is worth.

Late last year, CNBC Financial Guru Jim Cramer was telling homeowners to 'Just Walk Away'. (Watch the video on YouTube.com.)

We are clearly in uncharted waters. The current housing crisis is different from all the previous housing recessions. It is well known that many financial institutions sold mortgages in a deceptive manner — for example, by approving people for loans they couldn't really afford — then why should homeowners feel obliged to honor their commitments?

From a homeowner's perspective, why should they stay in a home that is depreciating? Often times it's possible to rent the same style home in the same area for half (or less) than their current mortgage payment. Assuming it takes years for the market to recover, the homeowner who sells their home via a short sale now will be far ahead of the person who 'stuck it out'.

### Here is an example:

#### Starting May of 2008:

- Homeowner paid \$500,000 at the market peak in late 2006. Homeowner put down 5% and did a 7 year interest only mortgage. Monthly payment including principle, interest, taxes and insurance is \$4200 per month.
- Assuming the property has depreciated 30% and is now worth only \$350,000, the owner has negative equity or is 'upside down' by \$150,000.
- The market is continuing to depreciate and was previously projected to level off in mid to late 2009. A Tsunami of bank-owned homes will be released into the market (known as 'Shadow Inventory'), starting in June 2009 and continuing into 2010. This will cause home values to sink to new lows before finally leveling off. In other words, months and months of more losses for the homeowner, and according to some, years of ongoing depreciation before all is said and done.

#### Option 1

In our example, the homeowner can 'stick it out' and keep the home. They will continue to make their monthly interest only payment/ house upkeep of \$4200 per month. They will pay \$50,400 per year to keep the home. They are deeply 'upside down' in the home with massive negative equity. By mid 2010, the home's value has stopped depreciating. The market stays flat for at least a year thereafter. The inventory levels have to sell off. In late 2011 or early 2012, the market slowly begins to appreciate again. Best case the home starts to appreciate at 5% per year. Based on this rough example it will take at

least 7 years for that home to be worth what that owner paid in 2006. During that time the homeowner will have paid \$50,400 per year. Do the math. That's \$352,800 spent to stay in the home and 'stick it out'.

#### Option 2

Homeowner lists the home with an agent trained in doing short sales. The home sells and the bank agrees to accept the loss in equity as the short sale. Bank loses \$150,000. Homeowner moves to a rental home in the same neighborhood and pays rent of \$2000 per month. Half of his previous house payment. Homeowner saves the difference between what he had been paying for the owned home and his new rent payment. \$26,400 per year. Yes, the homeowner does have significant negative credit ramifications as a result of their short sale. This negative credit will prevent them from buying a home for the next 18-24 months. With this option he can sit out the real estate recession and jump back in when the market has hit bottom. If he times it right he can buy at the markets bottom. This time he will have a more significant down payment and a better quality mortgage.

**Let's be very clear about this next point...Yes, there is damage to your credit.** According to national experts, after a short sale, a person's credit will go down by 75 to 150 points and then prevent them from buying using a government backed mortgage for up to 24 months. With a foreclosure, the credit is damaged by 200 to 250 points, and for up to 4 or 5 years preventing someone from obtaining a government-backed mortgage. It is clearly less damaging to your credit to do a short sale then to just let the home go into foreclosure.

Many home owners who are now short selling their properties are going to want to buy houses again some day; and when they do, lenders are going to want to make money lending them money to do so.

Now that short sales are not unusual – indeed they are becoming 'normal' in many markets, there is discussion about credit reform that may take into account the demise of the housing market. Particularly if the short sale is an isolated credit event, the home owner's credit score will recover more quickly than in a foreclosure or deed in lieu.

## Chapter Two

### *How Bad Is It?*

One thing is certain: Foreclosures are on the rise. Cities in California, Florida, Nevada, Arizona and Illinois just posted the highest foreclosure rates in the U.S., according to RealtyTrac, a private firm.

RealtyTrac is the go-to source for the best foreclosure information. This information is from a recent report that they released. If you want to obtain current, up to the minute information on foreclosures in your area go to their website. [www.realtytrac.com](http://www.realtytrac.com).

“RealtyTrac, the leading online marketplace for foreclosure properties, released this recent report, which shows:

*“Foreclosure Activity Up 18 Percent From January 2008 37th Consecutive Month with Year-over-Year Increase*

*Foreclosure filings — default notices, auction sale notices and bank repossessions — were reported on 274,399 U.S. properties during the month, a 10 percent decrease from the previous month but still up 18 percent from January 2008, according to the RealtyTrac U.S. Foreclosure Market Report. The report also shows one in every 466 U.S. housing units received a foreclosure filing in January.”*

Nevada, California, Arizona have the highest state foreclosure rates. One in every 76 Nevada households received a foreclosure filing during the first quarter, the highest foreclosure rate among the states and 3.6 times the national average.

Foreclosure filings on California properties happen to one in every 173 homeowners.

Arizona documents 1 in every 182 homeowners received a foreclosure notice so far in 2009.

According to the U.S. Foreclosure Market Report from RealtyTrac, for Q1, 2009, foreclosure filings, default

notices, auction sale notices and bank repossessions were reported on 803,489 properties. This translates into a 9 percent increase from the previous quarter and an increase of nearly 24% from the same period in 2008. What does this mean? One in every 159 U.S. homes received a foreclosure filing during the months of January, February, and March in 2009.

Foreclosure filings were reported on 341,180 properties in March, a 17% increase from the previous month and a 46 % increase from March 2008. **The March and Q1 2009 totals were the highest monthly and quarterly totals since RealtyTrac began issuing its report in January 2005** despite a decrease in bank repossessions (REOs), which were down 13 % from the 4th quarter of 2008 and 3% from February totals. This decrease in REO's was at least partly due to the foreclosure moratoriums.

#### From RealtyTrac:

*"In the month of March we saw a record level of foreclosure activity. The number of households that received a foreclosure filing was more than 12 percent higher than the next highest month on record. Since much of this activity was in new foreclosure actions, it suggests that many lenders and servicers were holding off on executing foreclosures due to industry moratoria and legislative delays, said James Saccacio, chief executive officer of RealtyTrac, in a prepared statement. "It's also likely that the drop in REO activity can be attributed to these processing delays, rather than to any of the foreclosure prevention programs currently in place. It's very likely that we'll see the number of REOs increase again now that most of the moratoria have been lifted."*

*"On a positive note, it appears that demand is up in some of the harder-hit areas, particularly on bank-owned REO properties that first time homebuyers and investors see as bargains. But it's unlikely that this increased demand will be enough to offset the growing number of foreclosures in the pipeline, accelerated by rising unemployment rates."*

With 230,915 properties receiving foreclosure filings during 1st quarter, **California** accounted for nearly 29% of the U.S. total. The state's foreclosure activity increased 35% from the previous quarter and 36% from Q1 of 2008, and the first-quarter total was California's highest quarterly total since RealtyTrac began issuing its report in the first quarter of 2005.

Despite a 12% fall from the previous quarter, **Florida's** first quarter total was still second highest in the country. Foreclosure filings were reported on 119,220 Florida properties, a 36% increase from the first quarter of 2008. Florida reported the nation's fourth highest state foreclosure rate during the quarter, with one in every 73 housing units receiving a foreclosure filing.

Foreclosure filings were reported on 49,119 **Arizona** properties in Q1 of 2009, the third highest total among the states, and 41,296 **Nevada** properties received a foreclosure filing in the first quarter of 2009, the fourth highest total among the states.

**Illinois** posted the U.S.'s fifth highest total, with 38,966 properties receiving a foreclosure filing during the first quarter, accounting for a 32% increase from the previous quarter and a 68% increase from the first quarter of 2008. One in every 135 housing units received a foreclosure filing. This makes the state's foreclosure rate fifth highest among the states.

Completing the list of states with the 10 highest foreclosure activity totals in Q1 2009 were **Michigan, Ohio, Georgia, Texas and Virginia.**

Mid-2009 Update: According to RealtyTrac, there are currently 1,940,773 foreclosure filings for the entire United States. (In early 2008, this number was 649,000+). This statistic is up over 412% from the first quarter of 2007. In the hardest hit states, the average is 1 in 67 households in foreclosure. That's up from 1 in 194 reported in the first quarter of 2008. That's a 290% increase.

## Chapter Three

### *Ok, I Get It...A Short Sale May Be My Best Option...Tell Me More...*

A short sale is when a lender accepts a discount on a mortgage to avoid a possible foreclosure auction or bankruptcy. For example: A homeowner, who is facing foreclosure, has an existing first mortgage of \$500,000. The market value of the home is \$350,000.

Long story short, the lender accepts the offer for \$350,000 and the home is sold.

That's a short sale.

Why are lenders so eager to take such a huge discount? Banks do not like bad loans. If they see an opportunity where they can sell the property without the huge loss of a foreclosure, they will do it. Some lenders report that if the home goes into foreclosure by the time the home actually closes with the new buyer, the lender will be lucky to net 50% of the original loan balance.

One of our students reported recently that she has a short sale property listed where \$260,000 is the loan balance yet the current market value is only \$85,000. Less by the time you have read this sentence.

What's the bottom line from the lenders perspective? They are in the business of lending money, not owning homes. If they can accept a short sale offer and rid themselves of the bad loan AND net more, vs. the home going into foreclosure, they will do it every time. It's simply smart business.

Time is not on your side when you are considering a short sale. You must act quickly and work only with a real estate expert who has successfully completed and graduated from advanced real estate education programs like Harris Real Estate University.

## Chapter Four

### *What is Mortgage Foreclosure?*

Mortgage foreclosure simply means the deed can only be foreclosed through court action. Mortgage foreclosure is usually referred to as a judicial foreclosure.

A mortgage is a security document that allows the borrower to keep title of the property while using the property as security or collateral for a loan. The lender then places a lien on the property in the event the owner does not pay the agreed payment. When the borrower pays off the loan, the lender gives the borrower a satisfaction of mortgage that removes the lien from the property. About half the states in the U.S. use mortgage foreclosure as the means of satisfying the loan balance.

As with most mortgage foreclosure lawsuits, it starts with a summons and a complaint is issued to the borrower and any other parties with inferior rights in the property. Usually the lender's attorney is the one who issues the notice. The complaint is usually filed in the court where the trial is to be held. Here's the interesting part. Once the borrower has been notified, he or she has 20 days to respond back to the court challenging them on the mortgage foreclosure lawsuit. Once this occurs, the court now has 40 days to respond back to the borrower. Keep in mind that each correspondence must be legit and deal with some specific part of the complaint. This process may go back and forth as long as the borrower finds something erroneous with the complaint. This slows a mortgage foreclosure greatly because it must go through the court system. It may go as long as a year if needs be or even longer. This is how many homeowners stay in their homes for months often years after they have stopped making their house payments.

## Chapter Five

### *You Have Been Warned: Foreclosure Scams on the Rise!*

Foreclosure Scams are on the rise because of the increasing number of foreclosures. It's very important as homeowners to know about these scams:

#### *Common Foreclosure Scams*

##### **1. Equity Skimming:**

You are approached by a "buyer" that offers to buy your home at full asking price. The potential buyer claims he will solve all your financial problems by "promising" to pay off your mortgage. He claims to take over the existing mortgage and give you a sum of money after the property is sold. But in order to do so, he suggests that you move out right away and deed the property over to him. So you move out and assume the "buyer" will continue to make the mortgage payments. However, the "buyer" collects rent for the next 6 - 8 months and does not make any mortgage payments. The lender has no choice but to foreclose and all the while you have no idea what's happening because you've moved out.

##### **2. The Bait-and-Switch:**

Very similar to taking over "subject to", but the acclaimed buyer is only after the equity. The buyer tells the homeowners he will bring the mortgage current and tells them they can stay in the home. But in order to do so, he must have a few documents signed that protect his interest and gives him ownership of the property. Then a few weeks down the road, the homeowner receives an eviction notice.

##### **3. The Bailout:**

Again very similar to the previous two, where the homeowners sign over the deed with the assumption that they will be able to remain in the house as a renter or lease it back from the buyer and eventually buy it back over

time. The terms of these types of scams are so harsh that they make it nearly impossible to buy-back which was the plan to begin with. The homeowner is left with nothing and the buyer walks off with most or all of the equity.

#### 4. Phantom Assistance:

Typically these are online companies claiming to have the magic touch in stopping the foreclosure auction. They know all the ins and outs and what to say to the lender to stop the auction. Then these companies charge outrageous fees for simple phone calls and paperwork the homeowner could have completed on their own.

#### 5. Short Sale Negotiating Companies.

This is the newest breed of companies to avoid. Here is the bottom line: they make all their money from the fees you pay them at the start of the process. In other words, they have little to no incentive to get your short sale actually accepted and closed.

#### 6. One of the largest foreclosure assistance programs right now is 888-995-HOPE.

This is available to any homeowner in America having trouble paying their mortgage. It is provided free of charge by the Homeownership Preservation Foundation, a nonprofit dedicated to preserving homeownership. However, you should know that to date, they've only helped ONE homeowner, when the program was supposed to help up to 400,000 homeowners. This has been due to the immense amount of red tape and strings attached to this program. President Obama is trying to reform this organization, but as of mid-2009, the statistic remains, sadly, only 1 family has been helped successfully.

#### Here are a few things you can do to avoid foreclosure scams...

- **DON'T MAKE** mortgage payments to anyone other than your lender.
- **DON'T SIGN** over the deed without some closure or agreement for your protection. Talk to your attorney or title company if you need help.
- **DON'T EVER** pay anyone who claims to stop foreclosure. You can stop the auction yourself, or with the help of a short sale trained and certified Realtor.
- **DON'T SIGN** any papers that you don't fully understand, or you could make bad matters worse.
- **DON'T SIGN** any papers that you feel pressured into signing. Take your time.

## Chapter Six

### *What are the Options For Homeowners Facing Foreclosure?*

1. Try to “make nice” with your lender. You can call your lender and ask them to reinstate the loan. You may be allowed to reinstate or make the loan current by paying a lump sum or making scheduled payments to your lender over a given amount of time. Just explain to them you had a few bad months and things are now better and most lenders will try to work something out with you.
2. IF you have equity, refinance. Usually the lender would refinance the existing loan and include as part of the new loan any late payments, and fees that you would need to regain control. It would all be “wrapped” into one mortgage.
3. Assuming you have no equity and have to sell, you can list your home with a Realtor who has been trained how to do short sales. Almost always your best option.
4. You can give the property back to the lender. If there are no other liens on the title, the lender may agree to take the property back. This process of transferring ownership from you to the lender under these circumstances is called a Deed in Lieu of Foreclosure, and is sometimes referred to as a “friendly foreclosure” because in essence that what it is. You just walk away. You must discuss this with your lender. Most lenders require that prior to executing a ‘Deed in Lieu of Foreclosure’, you must be able to show that you tried to market your home for sale (most likely a short sale), for a minimum marketing time of 60 days. Contact a well qualified Realtor with short sale experience.
5. You can file bankruptcy. First, you need to seek the advice of a attorney. In no way are we trying to provide legal advice. Only an attorney can give legal advice. The two most common “chapters”

of bankruptcy are Chapter 7 and Chapter 13. Bankruptcies are “work out” others are “wipe out”. Chapter 7 is the “wipe out” and Chapter 13 is the “work out”. Bankruptcy is a federal court action designed to help individuals repay their debts or eliminate their debts depending on their circumstances. Chapter 13 bankruptcies are designed to reorganize debts in an effort to repay all debt. Chapter 7 bankruptcies are geared more towards liquidation of assets. Both Chapter 7 and Chapter 13 immediately stop the foreclosure process and any creditors from taking further action against you.

### Chapter 7 Bankruptcy

When someone files a Chapter 7 bankruptcy, all assets are frozen. The attorney creates what is called an automatic stay. Meaning everything “Stays” put. The homeowners can’t buy anything, they can’t sell anything, and they can’t even give away anything. If they try to sell their home, they couldn’t. If they try to give away money in savings, they can’t. Any unsecured debt like credit cards, unsecured loans, etc. are eliminated or wiped out. They do not exist anymore. Then the trustee or attorney who represents the court and the creditors will look at all the assets (house, car, furniture, equipment) anything of value and decide what must be liquidated to pay some of the debt that was wiped out.

If the homeowners are in the middle of foreclosure, a Chapter 7 will stop the foreclosure process. Usually banks will then ask the trustee to release the property from the automatic stay so they may continue with the foreclosure process. Once the property has been released from the bankruptcy, the foreclosure process starts right where it left off. Typically you have anywhere from 3-5 weeks until the foreclosure process begins again.

### Chapter 13 Bankruptcy

When someone files a Chapter 13, they don’t take all the assets and sell them. Instead they take all the monthly payments and discount them for

pennies on the dollar. It’s like a debt consolidation plan. Whatever amount is agreed upon has to be paid to the bankruptcy court every month for the next 3-5 years. So the homeowners get to keep their house, their cars, and all their assets. Now, as long as the homeowner stays current with the mortgage payments and pays the amount agreed upon, they will be fine. However, if any payments are missed, the trustee will dismiss the bankruptcy and the foreclosure process will begin again.

6. And finally, you can just let it go to foreclosure. Basically you don’t do anything. You leave with nothing in hand and a foreclosure on your credit report. This is without question the worst option of all.

*Another solution available is the Soldier Relief Act of 1940. When a property is owned by a person in the military and the mortgage payments are not made, then this relief act may stop foreclosure based on certain criteria. The person has to be in active duty in order to qualify. The mortgage loan had to be established before the soldier was called out to active duty. Not only will this stop foreclosure, but it can stop seizure of any personal property while the soldier is actively serving and several months thereafter.*

## Chapter Seven

### *You Now Want To Do A Short Sale. Top 10 Seller Short Sale Questions, Answered.*

#### **Number 10**

I can't make my house payments but I do have an ability to pay back all or part of the negative equity. Also, I want to preserve my credit score...is a short sale right for me?

Probably not. In cases where the seller can pay back all or part of the negative equity (usually to the 2nd lien holder) it makes sense for them to work out a repayment plan. The lender will then release the lien and allow the home to close. In some cases however, a short sale is still the best option because some banks just don't offer repayment plans. They figure the re-default risk is too high.

#### **Number 9**

If I pay mortgage insurance and default on my loan, wouldn't that cover the deficiency amount?

The mortgage insurance is not there for your protection. It protects the mortgage lender.

#### **Number 8**

Do I have to have my home 'Approved' by my lender prior to offering it for sale as a short sale?

No. Technically speaking, there is no such thing as being 'Short Sale Approved'. The actual approval only happens with an accepted offer.

#### **Number 7**

I just missed a payment and I know I will miss more... how long does the foreclosure process take and is there time to do a short sale?

The foreclosure process takes differing times depending on your state. In the Midwest a foreclosure can take over

a year. In California it's taking 6+ months. Generally speaking a well-priced short sale being processed by an educated short sale listing agent will sell and close in less than 120 days.

**Number 6**

Will I still have to pay property taxes if I do a short sale?

Property taxes will always have to be paid as part of any accepted short sale. Whether it's you or the lender depends on their policies and the specific agreement you reach while negotiating the short sale.

**Number 5**

I owe more than my home is worth and I can't make the payment, do I have to somehow qualify for a short sale?

The simple answer is NO. If someone can't make their payment and they are otherwise insolvent they qualify for a short sale. Note: insolvent simply means their total debts are great than their assets.

**Number 4**

Do I have to pay income taxes? I have heard that I will get a 1099. Will the loss the bank takes be treated as a taxable gain to me..the seller..is this true?!

It WAS true, now it's not, thanks to the Mortgage Debt Forgiveness Act of 2007. Consult your Tax Attorney or Qualified CPA. Very recently the tax law was modified and now most people who do a short sale will have no taxes due. This is especially true if the home is your primary residence.

**Number 3**

How do you, my listing agent get paid? Who pays your commission?

The bank will pay the commission along with all the other usual closing costs.

**Number 2**

Do I have to miss a payment to do a Short Sale?

No. Late last year most major lenders started accepting short sale offers from sellers who have never missed a payment.

**Number 1**

I want to do a short sale and have a 2nd mortgage: does this make me ineligible?

No. Both of your lenders will need to be satisfied in some way to complete the short sale. If your first lender will be paid off by the sale, then you just negotiate the terms with the second lender. Most short sales do involve 1st and 2nd lien holder.

## Chapter Eight

### *But, I Thought Rates Were Falling. Won't That Help Me?*

The Federal Reserve has been lowering rates to bail out the economy. Does this mean that that mortgage rates will fall?

#### **In some cases yes in most cases no...read on.**

Let's start with the 30-year fixed rate mortgage. The 30-year fixed rate mortgage is not tied to short-term treasuries. Fixed mortgage rates are tied to long-term bond yields that move based on the outlook for the economy and inflation. True, even as the Fed has lowered rates, the 30-year fixed has come down, but that's because of the outlook for slower economic growth in the months ahead. While the decline in treasury yields has helped push mortgage rates lower, the decline in long term rates hasn't been in lockstep thanks to the fact that these mortgages are securitized and sold on the global market. Investors now demand a higher risk premium on these mortgages due to higher delinquencies and foreclosures.

Next let's take a look at 7 and 5-1 Adjustable Rate Mortgages (ARMs) Yes, this is good news if your 5-year (or 7 year) ARM is pegged to a treasury index. So if you're facing a reset on, say, a \$200,000 loan, you're now getting a payment increase of about \$150 a month, as opposed to \$370 a month, which you would have had before the Fed started cutting rates.

#### **Do the Fed Rate Drops Help Sub-Prime mortgage Holders?**

Nope. Unfortunately if you have a sub-prime ARM it is more than likely pegged to LIBOR, which has moved in the opposite direction. Because of the liquidity issues in global financial markets, LIBOR rates have actually increased at the same time that treasury and other benchmark yields have been declining, so the Fed lowering rates today would not help too many sub-prime mortgage holders.

Even with lower rates, the home still must appraise for the amount being borrowed plus another 10 to 20%. In most places, depreciation alone has eliminated the opportunity to refinance and take advantage of rate adjustments.

### **How Are Home Equity Lines of Credit Affected?**

How about my Home Equity Line of Credit (HELOC): Yes, if you have that home equity line of credit that you used to renovate your bathroom/kitchen recently, then when the Fed lowers rates, your rate comes down as well. That's because HELOCs are predominantly pegged to the prime rate, which moves in step with the Federal Reserve.

## Chapter Nine

### *Life After Short Sale: When You Want To Buy A Home Again...FHA To The Rescue!*

Remember, after a short sale, it's possible to obtain a new mortgage in as few as 24 months, assuming all other credit has been kept clean.

### **Get ready for FHA loans to become the best choice EVEN in the high priced areas like California!**

It's now possible to get a FHA Mortgage in certain parts of the country for over \$700,000! In California, the FHA loan limit for Orange and Los Angeles Counties is \$729,500! In the Inland Empire, it's \$500,000 and in Las Vegas, it's \$400,000.

Visit this web address for updated FHA mortgage limits for your state.

<http://www.hud.gov/offices/hsg/sfh/lender/sfhmolin.cfm>

### **You Must Know How FHA Loans Work:**

First, it's important to understand that FHA is not only for first time home buyers, anyone can sign up for an FHA loan, as long as you don't have more than one FHA Loan at a time.

Your job is to establish a relationship with an FHA approved lender. Not all lenders hold this qualification.

### **Little Known SECRETS of FHA Loans:**

- FHA Can Help Clients With Blemished Credit History. New programs are coming out that will allow borrowers with credit score in the high 500s buy a home.
- Short Sale. You can obtain an FHA loan 2 years from the date the sale closed, as long as you have maintained good credit since the closing date.

- Bankruptcy. You can obtain an FHA loan two years from the date of your bankruptcy discharge, as long as you've maintained good credit since your debts were discharged.
- Foreclosure. If you keep your credit in excellent shape after a foreclosure, an FHA loan will be available to you two years from the final date of your foreclosure.

Selling your home as a short sale is always the best route to take, to take advantage of this down market and buy again as soon as you can, if that is what you desire.

### *Ultra Competitive Rates & Terms*

- There is little or no adjustment to the interest rate for an FHA loan, as the rates vary within .125 percent of a conventional loan.
- Mortgage insurance is funded into the loan, meaning a premium of 1.5% is added to the loan balance instead of being paid out-of-pocket. In addition, a small portion for the mortgage insurance premium is added to the monthly payment, but it is far less than private mortgage insurance premiums.
- Qualifying Borrowers can finance 96.5% of the purchase price and put down 3.5 percent. In some instances, when combined with other programs, the down payment can be zero, especially in the case of VA loans.
- Allowable debt ratios are higher than the debt-ratio limits imposed for conventional loans.
- Borrowers can get up to 6% back from the seller to help with all of their closing costs.

### **Forget what you thought you knew about FHA...**

At one point, FHA repair demands were so excessive that sellers would discount the list price to buyers who would agree to obtain conventional loans over FHA loans. Today the requirements appear more reasonable.

- You can purchase a home in need of repairs and finance the repair costs with the mortgage. This way you can make the necessary repairs immediately without having to come up with the money yourself.
- You can purchase manufactured homes and condominiums with a FHA loan.
- You can finance the cost of energy-efficient repairs with the mortgage.
- Defective roofs that leak still need to be replaced but an older roof does not necessitate replacement if it doesn't leak. An roofing certification is acceptable in most cases.
- Windows that stick upon opening or have cracked panes do not require replacement.
- FHA appraisals do not take the place of a home inspection, and never have. Buyers should still obtain a professional home inspection.

It's time to take advantage of the return of the FHA loan! The appraisal process is easier than before and you can take advantage of the \$8000 tax credit currently being offered. Just recently, the tax credit rules changed for the better. You can now take the tax credit immediately and use the money to pay for your closing costs.

Ask your Realtor how to take advantage of these special programs and what the next step is if you are interested in obtaining an FHA loan now or in the future. Not all lenders are able to offer FHA loans, so rely on your agent to recommend a lender who can help.

## Chapter Ten

### *Something You Should Know: The Death Of The HELOC....Millions Of Homeowners Shut Out.*

Most major lenders have frozen withdrawals from Home Equity Lines of Credit (HELOCs) – and I don't want you to be caught off guard by this development. If you were planning on using your HELOC for spring home improvements or college tuition chances are the money has been shut off.

You should be aware that the lender retains the right to suspend or reduce the line of credit available if your property value falls below the appraised value used to originate the loan. Lenders are actively assessing (performing Broker Price Opinions, or Appraisals) properties and then suspending access for account holders who have seen a downward slide in their home value. Many of our students who do BPOs are reporting to us a dramatic increase in BPO requests from lenders for this reason.

### **Actual notice from Countrywide...sent to borrowers:**

*'Important message about your loan: At Countrywide Home Loans we are committed to helping customers sustain homeownership. As part of the commitment, and in keeping with its sound risk-management and responsible lending practices, Countrywide Home Loan is reviewing and analyzing home equity lines of credit in its servicing portfolio.*

*We believe that the decline in the value of your property, from its original appraised value at the time your loan was made is significant. In accordance with the terms of your Home Equity Credit Line Agreement and Disclosure Statement (Agreement), we have elected to suspend further draws against your account as of the Effective Date above.'*

The Los Angeles Times recently reported that Countrywide notified many homeowners they've lost their right to borrow against their credit lines:

*'Tens of thousands of homeowners with home equity lines of credit are getting a rude surprise: They've been told by their lender that they can no longer take money out on their credit lines because sinking home prices have left them with little or no equity.*

*Among the lenders taking such action is Countrywide Financial Corp., which sent 122,000 letters to customers last week telling them they could no longer borrow against their credit lines. In some cases, according to the company, the borrowers are now "upside down" — the total debt on the home exceeds the market value of the property.*

*Calabasas-based Countrywide, the nation's largest mortgage lender, says it uses computer modeling that factors in changes in home prices to determine which customers will have their money tap shut off.'*

If there was any question that consumers were feeling the pinch before...just wait until they are told that their homes are worth LESS than what they owe. Or in the words of Countrywide, "Significantly Less". Do you think that will have an effect on the economy? Think this will make consumers feel more confident about housing?

## Appendix A:

### *Loss Mitigation Companies and Contact Info.*

This is the most complete list of loss mitigation phone numbers for lenders on the Internet. It is sorted in alphabetical order. The first step to stop foreclosure is to contact your lender and try and obtain a reasonable loan workout or repayment plan. The quicker you get the ball rolling, the better chance you have of striking a deal with your lender, so you can save your home and your credit. The hardest call is the first. It only gets easier after that. Time is ticking and it goes by fast when you're behind the infamous 8 ball. As Nike would say, "Just Do It!"

Be aware that your Short Sale trained and Certified Realtor knows the exact process to handle your short sale. Many homeowners prefer having their Realtor handle the Short Sale, walk them through the process and help them navigate the different steps required to achieve short sale success. A Short Sale Certified Realtor can take the guess work out of the process, achieve success for you in less time and with less hassle to you.

### *Here's the list of Lenders:*

Lender/Service Loss Mitigation  
Phone Numbers & Contact Information:

ABM AMRO Mortgage (800) 783-8900  
Web: <https://www.mortgage.com/C3/application.busAccreditedHomeLenders> (877) 683-4466 AMC Mortgage Services (Also handles loans originated by Ameriquest and Argent) (800) 211-6926  
1600 McConnor Parkway  
Schaumburg, IL 60173  
Web: <https://www.myamcloan.com/malwebapp/begin.do>

American Home Mortgage Corp. (877) 304-3100\*

Ameriquest Mortgage (Debt collection — see AMC Mortgage Services) (800) 211-6926

Aurora Loan Services (Debt collection) (800) 550-0508  
By Overnight Mail:  
601 5th Avenue  
Scottsbluff, NE 69361  
Attn: Customer Service  
By Regular Mail:  
P.O. Box 1706  
Scottsbluff, NE 69363  
E-mail: [ccnmail@alservices.com](mailto:ccnmail@alservices.com)  
Web: <https://www.alservices.com/Consumer/UI/SSL/Authentication/Login.aspx?ReturnUrl=%2fConsumer%2fUI%2fSSL%2fServicing%2fDefault.aspx>

Avelo Mortgage LLC (866) 992-8356\*Bank of America (800) 846-2222BB&T Mortgage (800) 827-3722\*  
AmTrust Bank (aka Ohio Savings Bank) (888) 696-4444

Beneficial (800) 333-5848

Central Pacific Bank (800) 342-8422\*

Charter One (800) 234-6002

Chase (800) 548-7912  
Loss Mitigation (877) 838-1882 ext 52195 The Number you will be directed to after you give your loan number: (866) 665-7629 (business hours are 11AM-8PM M-TH, 8AM-12PM F)  
Chase Home Finance (800) 848-9136 (customer service) (858) 605-2181 (delinquency customer service)  
Chase Home Finance-New Jersey (800) 446-8939\*Chevy Chase Bank (800) 933-9100\*  
Web: [https://chaseonline.chase.com/chaseonline/logon/sso\\_logon.jsp?fromLoc=ALL&LOB=COLLogon](https://chaseonline.chase.com/chaseonline/logon/sso_logon.jsp?fromLoc=ALL&LOB=COLLogon)

Chase Manhattan Mortgage (800) 446-8939 (Ohio Servicing Center) (800) 526-0072 (Florida Servicing Center) (800) 527-3040 x533 (Florida Servicing Center)Chevy Chase Bank (800) 933-9100  
Web: <https://www.chevychasebank.com/html/payment.html> (Payment Addresses)Citi Financial Mortgage (800) 753-3673 Citimortgage (800) 283-7918

Countrywide (800) 262-4218  
 Web: [https://customers.countrywide.com/se...t\\_login254.asp](https://customers.countrywide.com/se...t_login254.asp)

Ditech (800) 852-0656 (800) 449-8582

Downey Financial Corp. (800) 824-6902, ext. 6696

Deutsche Bank National Call Number on Mortgage Statement

EMC (800) 723-3004  
 P.O. Box 141358  
 Irving, TX 75014-1358  
 Web: <https://www.emcmortgageservicing.com/ccn/ccnsecurity.asp>

EverBank (800) 669-7724 ext. 4730

Equity One (Debt collection) (866) 361-3460

First Horizon Home Loans (800) 489-2966\*

Fifth Third Bank (800) 375-1745 Option 3

First Merit Bank (888) 728-9931

Flagstar Bank (800) 968-7700, ext. 9780

Fremont Investment & Loan (866) 484-0291

GMAC Mortgage (800) 850-4622

GreenPoint Mortgage Funding (800) 784-5566, ext. 5383\*

Green Tree (877) 816-9125

Homecomings Financial (800) 799-9250

HomeEq Mortgage Servicing (Debt collection) (866) 822-1471

Household Finance (An HSBC Co.) (800) 333-5848

Household Mortgage (800) 333-4489

HSBC Mortgage (800) 338-6441  
 Default Resolution Team (if long term problem)  
 2929 Walden Avenue  
 Depew, NY 14043  
 (888) 648-3124 Loss Mit  
 (732) 352-7519 Fax  
 Web: <http://us.hsbc.com/personal/mortgage/existing/difficulties.asp>

Huntington National Bank (800) 323-4695

Indymac Bank (877) 736-5556  
 C/O Loan Resolution Department  
 P.O. Box 7014  
 Pasadena, CA 91107  
 (Monday - Friday 6:15am-7:15pm. (Pacific Time)  
 Web: <https://www.indymacbank.com/contactus/loanResolution.asp>

Irwin Mortgage (888) 218-1988  
 P.O. Box 7014  
 Pasadena, CA 91107  
 Web: <https://www.irwinmortgage.com/wps/portal/lut/p/cxml/E-mail:delinquency.prevention@irwinmortgage.com>  
 James B. Nutter & Company (800) 315-7334  
 Key Bank (800) 422-2442  
 LaSalle National Bank (800) 783-8900

Litton Loan Servicing (800) 999-8501 or (800) 548-8665  
 Fax (713) 966-8820  
 4828 Loop Central Drive  
 Houston, Texas 77081-2226  
 Web: <https://www.littonloan.com/index.asp>

Loss Mitigation Department Hours:  
 Monday Eastern: 9 a.m. - 7 p.m. Central: 8 a.m. - 6 p.m.  
 Mountain: 7 a.m. - 5 p.m. Pacific: 6 a.m. - 4 p.m.  
 Tuesday-Thursday Eastern: 9 a.m. - 9 p.m. Central: 8 a.m. - 8 p.m.  
 Mountain: 7 a.m. - 7 p.m. Pacific: 6 a.m. - 6 p.m.  
 Friday Eastern: 10 a.m. - 6 p.m. Central: 9 a.m. - 5 p.m.  
 Mountain: 8 a.m. - 4 p.m. Pacific: 7 a.m. - 3 p.m.  
 Default Counseling Department representatives are also

available most weekends on Saturday from 8 a.m. to 12 p.m. and Sunday from 10 a.m. to 2 p.m. (CST).

Midland Mortgage (800) 552-3000 or (800) 654-4566  
Web: <https://www.mymidlandmortgage.com/MyMortgage/Login/Login.asp>

Mortgage Lenders Network (800) 691-0129  
E-mail: [customerservice@mlnusa.com](mailto:customerservice@mlnusa.com)  
Web: [http://www.mlnusa.com/customers/info\\_credithelp.asp](http://www.mlnusa.com/customers/info_credithelp.asp)  
Mortgage Electronic Registration Systems (MERS)  
(888) 679-6377 National City (800) 367-9305, Ext. 53221 or (800) 523-8654  
Attention: Homeowner's Assistance  
3232 Newmark Dr.  
Miamisburg, Ohio 45342  
(8AM-10:30PM ET, Monday - Thursday)  
(8AM-5PM ET, Friday)  
(8AM-Noon, Saturday)  
Web: [http://www.nationalcitymortgage.com/service\\_assistance.asp](http://www.nationalcitymortgage.com/service_assistance.asp)  
Nationwide Advantage Mortgage Company  
(800) 356-3442, ext. 6002\*  
NationStar Mortgage (888) 850-9398\* Press 0 for operator

New Century Financial Now Carrington Mortgage Services (800) 790-9502 or (877) 206-9904  
(6:00 a.m. to 7:00 p.m. Pacific Time, Monday - Thursday)  
(6:00 a.m. to 6:00 p.m. Pacific Time, Friday)  
Web: <https://myloan.newcentury.com/webapps/servicing/myloans/index.do>

NovaStar Mortgage Loan Resolution Department (888) 743-0774 Non-English: (888) 743-0774, ext. 4523

Ocwen Federal Bank (800) 746-2936 or (877) 596-8560  
Web: [http://www.ocwencustomers.com/csc\\_fa.cfm](http://www.ocwencustomers.com/csc_fa.cfm)

Attention: Financial Information  
12650 Ingenuity Drive  
Orlando, Florida 32826  
or  
Ocwen Financial Corporation

1661 Worthington Rd., Suite 100  
West Palm Beach, Florida 33409  
Phone: 877-226-2936

For serving Ocwen with legal process, please send to their registered agent:  
Corporation Service Company  
2711 Centerville Road, Suite 400  
Wilmington, DE 19808  
Phone: 561-682-8000, x8386

Option One (866) 711-1962 or (888) 275-2648  
Web: [http://www.oomc.com/servicing/servicing\\_baifaqs.asp](http://www.oomc.com/servicing/servicing_baifaqs.asp)

PHH Mortgage (Formerly Cendant) (800) 257-0460  
For borrowers facing possible delinquency: (800) 330-0423\*  
For borrowers in the foreclosure process: (800) 750-2518  
Web: <https://www.phhmortgage.com/sso/mq/login>  
ResMae Mortgage Corp. (877) 473-7623, ext. 5944

Saxon (800) 665-7367

Select Portfolio Servicing (888) 818-6032  
Fax: (801) 293-3936  
Loan Resolution Department  
P.O. Box 65250  
Salt Lake City, UT 84165-0250  
(Monday - Thursday 10:00 a.m. - 10:00 p.m. EST)  
(Friday 10:00 a.m. - 7:00 p.m. EST)  
(Saturday 9:00 a.m. - 1:00 p.m. EST)  
Web: <http://www.spservicing.com/services/customer/loanresolution.htm>

SkyBank (800) 290-3359

Sun Trust Mortgage (800) 634-7928  
PO Box 26149  
Richmond, VA 23260-6149  
Mail Code RVW 3003 Web: <https://www.suntrustmortgage.com/generalquestions.asp#>

Third Federal Savings (888) 844-7333

US Bank (800) 365-7900

Wachovia Bank of Delaware (866) 642-8608

Washington Mutual (866) 926-8937 or (888) 453-3102  
or (800) 478-0036 or (800) 254-3677

Waterfield Mortgage (800) 957-7245

Fax: (260) 459-5390

c/o Loss Mitigation Dept.

7500 W. Jefferson Blvd.

Fort Wayne, IN 46804

(7 am – 10 pm EST Monday – Thursday)

(7 am – 9 pm EST Fridays)

(8 am – 2 pm EST Saturdays)

E-Mail: [saveyourhome@waterfield.com](mailto:saveyourhome@waterfield.com)

Web: [http://www.waterfield.com/scripts/cgiip.exe/](http://www.waterfield.com/scripts/cgiip.exe/WService=wfg/pub/borrowerservices/delqasst)

[WService=wfg/pub/borrowerservices/delqasst](http://www.waterfield.com/scripts/cgiip.exe/WService=wfg/pub/borrowerservices/delqasst)

Wells Fargo (877) 216-8448 or (866) 261-5642 or  
(800)766-0987 or (800) 678-7986 for payment assistance

Borrower Counseling Services

Monday - Friday 8:00 a.m. - 9:00 p.m., CT

Saturday 9:00 a.m. - 2:00 p.m., CT

Web: <http://www.wellsfargo.com/mortgage/account/>

Wendover Financial Services Corporation (800) 934-1081  
or (800) 436-1022

Web: <http://www.wendover.com/borrowers.html>

Wilshire Credit Corporation (888) 502-0100

P.O. Box 8517

Portland, OR 97207-8517

From 6 a.m. to 5 p.m. (Pacific time) Monday through

Friday

Web: <http://www.wfsg.com/borrower/borrower.aspx>

*\*No direct line to the loss mitigation or loan modification  
department. But we are working on it*

## APPENDIX B

### *What's the difference between Short Sale vs Short Payoff.*

In our current real estate environment it is crucial that to fully understand the difference between a “Short Sale” and a “Short Payoff”.

A Short Sale is where the lender or investor agrees to accept an amount less than actual owed on the property.

The Criteria for a Short Sale are that the borrower demonstrates a verifiable long term hardship.

A Short Payoff is when the lender agrees to release the lien (their interest) on the property and allow the property to be “conveyed” to a new owner. The lender agrees to accept less than the amount owed on the property to release the lien however they extend a certain amount of “credit” to the borrower in the form of an unsecured line of credit or promissory note.

The Criteria for a Short Payoff – The mortgage is current, the borrower has great credit, and the borrower had and can demonstrate the ability to pay off the debt.

When would you request a Short Payoff? – You would request a short payoff when the home has lost value dramatically and you do not have the ability to pay the large amount to get completely out of the property.

Note – Not all lenders will allow for a Short Payoff, however you will never know if you never ask.

Advantages of a Short Pay-Off:

- You are able to move out of the property and get on with your life.
  - You SHOULD receive no negative feedback on your credit.
  - You may obtain a lower interest rate on the loan. Sometimes 1-2%.

If for some crazy reason your ability to pay changes and your client are not able to pay on the note, the credit ramifications are significantly smaller.

How to apply for a short payoff

1. If possible call the lender and ask them if they will accept a short payoff. Remember you may need to talk to a supervisor or to loss mitigation directly.
2. Put together your package, this is the same information as your short sale package, however the goal is to show the lender the ability to pay not the inability to pay.
3. Do not accept the first no as the answer, and never paint a lender or servicer with a broad brush. Remember most lenders do not work with just one investor, lenders sell their loans to different investors so if Countrywide says no today that does not mean no tomorrow.

### Man in the Arena

*"It is not the critic who counts: not the man who points out how the strong man stumbles or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes up short again and again, because there is no effort without error or shortcoming, but who knows the great enthusiasms, the great devotions, who spends himself for a worthy cause; who, at the best, knows, in the end, the triumph of high achievement, and who, at the worst, if he fails, at least he fails while daring greatly, so that his place shall never be with those cold and timid souls who knew neither victory nor defeat."*

– Theodore Roosevelt