

Short Sale Guidelines Are Making a Difference

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The theory behind short sales seems simple enough: If a homeowner owes more money on a house than the house can sell for, and the homeowner is struggling to pay the mortgage, the lender will allow the house to be sold for less than is owed.

For obvious reasons, lenders are not big fans of short sales and often make it a complicated process.

In April 2010, The Home Affordable Alternatives Program (HAFA) released new guidelines designed to streamline the short-sale process and allow more delinquent homeowners to sell their homes and move on with their lives.

In its first year, participating servicers initiated 12,266 HAFA agreements and completed 5,447 transactions.

According to the National Association of Realtors, the share of distressed homes—bank-owned properties and pre-foreclosure short sales— in April 2011 dropped to 37% of total sales volume, down from 40% in March and an average of 39% over the first quarter.

HAFA complements the Home Affordable Modification Program (HAMP), a loan modification program designed to reduce delinquent and at-risk borrowers' monthly mortgage payments by providing alternatives for borrowers who don't qualify for or don't complete a trial modification.

“[HAFA short-sale guidelines] are designed to help people who are unable to keep their home under the HAMP loan modification program,” said Jeff Lischer,

managing director for regulatory policy for The National Association of Realtors. “Let’s say you can’t keep your property under HAMP, the next step is a short sale, which is better than a foreclosure.”

It’s estimated that lenders lose about 40% of a property’s value on a foreclosure, whereas the figure is reduced to about 19% on a short sale. Moreover, the short sale is a graceful exit from the ownership, which is better for people’s credit scores.

New rules also add incentives for the short-sale process. One incentive helps sellers relocate by providing them with \$3,000 for moving expenses. A second incentive is for mortgage servicers, who receive \$1,500 from the federal government for each completed short sale. Under new guidelines, homeowners can secure a short sale approval in advance from the bank representing a minimum net amount the bank will accept.

Lenders participating in the HAFA program maintain the following requirements for homeowners considering short sale: The loan must be less than \$729,750, made before Jan. 1, 2009, and the home must be the owner’s primary residence. Also, the homeowner must be delinquent and unable to pay the mortgage, and the homeowner’s mortgage payment must be more than 31% of his or her before-tax income.

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