Do I Qualify for a Short Sale?

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A short sale is a property available at a sales price that is less than the amount owed by the current owner. The sale helps the bank by helping it to escape foreclosures that are costly and time-consuming. The seller escapes the collateral risk that comes with the foreclosure and bankruptcy that often comes with it.

Read below to find out if you qualify for a short sale:

Short Sale

A short sale is a financial choice that is often open to homeowners who are delinquent borrowers. They're late on their mortgage payments, so they've got a home underwater. It means that the house is worth less than the unpaid mortgage amount. In the event of a sudden cash windfall, the owner will have to part with the house. There are just two choices: short sale or foreclosure. Short sales are typically conducted by the homeowner when the valuation of the house falls by 20% or more. Before the procedure begins, the lender who owns the mortgage will sign the agreement. The lender, typically a bank, will need paperwork that describes why a short sale is a good option. After all, the lending entity might be losing money.

Once authorized for a short sale, the purchaser shall, first, meet with the homeowner and, second, obtain permission for the transaction from the bank. It is essential to remember that there can be no short sale without the lender's permission.

Requirements for Short Sale Eligibility

Defaulting borrowers are typically not eligible for a short sale until they are well into the foreclosure process. Based on state legislation, a short sale settlement period may begin six months after the release of the notice of default. And so, the homeowner must qualify, and the lender must consent to any bids received before the short sale phase is over.

Mortgage in Default

The borrower will be in default until the lender accepts a short sale. To be in default, the borrower will have to lose out on interest payments. And then, the homeowner must consider all such options (like installment programs and loan-modification schemes) before he can apply for a short sale. The period it takes to enter the short sale point varies on state laws, although usually, it requires at least six months after the notification of default. Moreover, the duration may be prolonged based on negotiation and logistical considerations, like applicant backlog during economic downturns.

Under Water

To be eligible for a short sale, the valuation of the property must drop below the outstanding debt balance (such as all costs and fines). The homeowner can contract a comprehensive appraisal to assess the market value of the property. Therefore, if the homeowner takes out a $200,000 mortgage and the total valuation of the property is $150,000, then the house is deemed "underwater," and the seller is likely to consent to a short sale.

Prove Financial Hardship

The homeowner must claim financial difficulty and justify so by sending a letter of hardship to the lender. The homeowner may also file documentation detailing the actual financial state (in the form of current pay stubs, income tax statements, W-2 reports, and cost sheets) and other extenuating situations. The homeowner does not have any collateral that the lender can use to recover its damages. Financial suffering must always be long-term, which ensures that the homeowner is unable to rebound shortly after the sale.

The financial hardship must be substantial, and it must be recognized as per the law of the state.

Some recognized issues of financial hardship are:

- Loss of job
- Loss of income
- Relocation
- Illness of borrower or co-borrower
- Divorce
- Death of a co-borrow that qualified the loan
- Declining local market property values

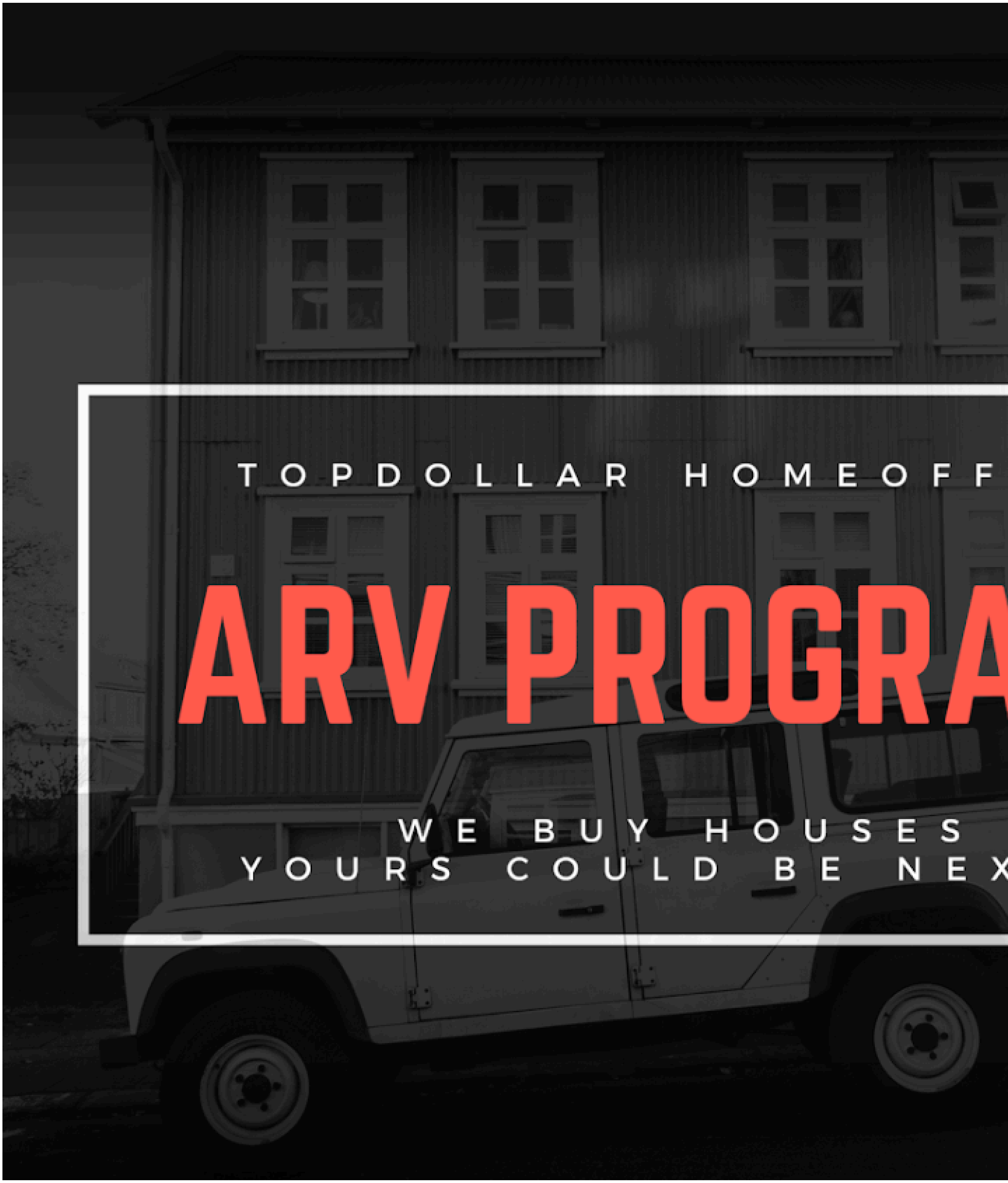
Monthly Shortfall

Nearly any lender will want to know why you can't manage to pay back your current mortgage. It is normally done on an accounting worksheet or a monthly income and loss document. You can reach out to an experienced realtor to help you form that financial documentation. Determining whether or not you have a monthly deficit is generally fairly straightforward.

The equation is:

Total Monthly Income – Total Monthly Expense = Monthly Shortfall

You may qualify if you have a monthly shortfall or if a monthly shortfall is imminent.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Insolvency

If you want to qualify for a short sale, you must not have the means to pay off the mortgage. It ensures that the mortgage provider will see that you owe more than you have. You will no longer be able to satisfy your loan commitments with your provider when debts are due.

You don't have to run entirely out of cash – that is a general misconception; the investor would just like to ensure that in time, you won't be willing to fulfill the mortgage obligations. Getting cash in your bank for living expenses is rising and does not disqualify you.

Dealing with a foreclosure or short sale may be very stressful and emotionally draining, but you have to ensure that you stay on the right track and choose the right option. Be careful from the start and only go for a short sale when you have exhausted all your options.

A short sale should be your last choice. However, on the brighter side, you can walk around with no burden on your shoulders and a clear credit report that can help you get a house very soon, which will not be possible with a foreclosure for the next seven year

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