



PRINCIPAL
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Short Sales

What Is a Short Sale?

According to the Arizona Association of Realtors®, “The term ‘short sale’ is used to describe a sale in a situation where there is more debt owing against a property than the property’s value. In a loan default situation, (pre-foreclosure) the creditor(s) may be willing to agree to allow the property to be sold for less than the loan amount and/or accept less than (or “short”) the amount owed as payment in full.”

Why would someone short sell their home as opposed to it going to foreclosure?

Fundamentally, a Short Sale is a bank authorized alternative to foreclosure. It is not an alternative to a sale. The basic idea is that instead of getting foreclosed on, you sell your property at a price and terms and conditions satisfactory to you and your lender. This can usually take place under the following conditions:

1. You are unable to continue making payments due to some hardship (divorce, death, loss of job, health, etc).
2. The amount owed on your house is greater than what Buyers are willing to pay in this market.

The bank is often more willing to take a reduced amount in a short sale rather than take the property back through a Trustee’s Sale. The banks are in the lending business, not the property ownership business.

Foreclosure vs. Short Sale

- A **Foreclosure** in Arizona usually occurs in the form of a Trustee’s Sale. Because we have Deeds of Trust instead of Mortgages, when a Buyer borrows funds from a Lender, they agree to let the Lender **SELL** the home if they default. The party entrusted with this sale is a Trustee. When a property is taken back due to default, the Lender attempts to sell the property at a Trustee’s Sale to wholesale property investor/buyers. If the property does not sell, the Lender now becomes owner of the property and must attempt to sell it themselves as a Bank Owned (REO) property on the open market.
- A **Short Sale** bypasses this step by allowing the Owner of the property to sell the property **BEFORE** the Trustee’s Sale takes place. The sale is contingent on the Lender’s approval of the terms and amount of the sale. Because the net dollar amount to the Lender in a Short Sale is usually higher than the net amount in a Trustee’s Sale or REO sale, they are usually more inclined to accept the offer and let the sale take place.

What are the costs involved in a short sale?

Unlike a traditional sale, where the Seller pays all REALTOR® commissions, in a short sale, the Lender typically pays all commissions. Home warranties are also typically provided by the Lender; and, with the execution of the AAR Short Sale Addendum along with the As Is Addendum, any and all repair costs associated with the sale are mitigated.

Please note that there are other costs involved in all sales. As such, other costs may be required by you up front. These may include costs for the home to be rekeyed (especially important if the home was ever utilized as a rental); marketing costs; and a Short Sale Negotiation Transaction Fee.

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Will the Short Sale automatically stop any foreclosure proceedings?

Most banks and/or loan servicing companies have separate divisions for the Short Sale Department (or Loss Mitigation Department) and the Foreclosure Department. Typically, Loss Mitigation does NOT talk to the Foreclosure Department, and the Foreclosure Department does not check to see if a home is listed prior to sending out the Notice of Trustee Sale. While a bank does not legally have to foreclose on a home that is in default, for legal reasons, a bank will typically place a Notice of Trustee Sale on properties once the home is at least 91 days late. At that time, the Notice becomes a public document in tax records; and letters will go out to all known parties. This includes the homeowner(s), any secondary lien holders, and the home itself in case there are tenants. On average, 9 letters will come in the mail, all stating the same information.

Just because a Notice of Trustee Sale has been sent, and a Sale Date posted, that does NOT mean that the home will be sold on that date! Your REALTOR® should be keeping in contact with both Loss Mitigation as well as the Foreclosure Department to make all parties aware that there is a listing agreement in place, and if there are any offers currently in place. The bank will then decide if it is in their best interest to postpone the foreclosure sale date; or to maintain it. It should be noted that, in most all cases, a bank will NOT postpone the sale date PRIOR TO 5 days before the auction.

Any and all letters and notices your bank sends you should be addressed by yourself; and a copy given to your Agent. This will ensure that no areas are missed by either of you, and help ensure your home is not lost to foreclosure while it's being listed.

It should also be noted, however, that there are times when a bank will choose to foreclose on a home. Reasons vary, but what we have found is the bank will be reluctant to extend the sale date if a home has been listed for an extended period of time, and no offers have come in; or if a home is vacant. Pricing your home right for the market is one way to avoid this from happening. If the home still has not sold, regular, systematic price adjustments are key, as it demonstrates to the bank a good faith effort by you and your Agent to get the home sold and keep it out of a Trustee Sale.

Tax Implications

Will I receive a 1099 at the end of the year?

Yes, you will receive a 1099 (unearned Income) from the lender at the end of the year. While you should seek the help of a qualified accountant, this is from the IRS.gov website:

“If you owe a debt to someone else and they cancel or forgive that debt, the canceled amount may be taxable.

The Mortgage Debt Relief Act of 2007 generally allows taxpayers to exclude income from the discharge of debt on their principal residence. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualifies for the relief.

This provision applies to debt forgiven in calendar years 2007 through 2012. Up to \$2 million of forgiven debt is eligible for this exclusion (\$1 million if married filing separately). The exclusion does not apply if the discharge is due to services performed for the lender or any other reason not directly related to a decline in the home's value or the taxpayer's financial condition.

More information, including detailed examples can be found in [Publication 4681](#), Canceled Debts, Foreclosures, Repossessions, and Abandonments. Also see IRS news release [IR-2008-17](#).

The following are the most commonly asked questions and answers about The Mortgage Forgiveness Debt Relief Act and debt cancellation:

What is Cancellation of Debt?

If you borrow money from a commercial lender and the lender later cancels or forgives the debt, you may have to include the cancelled amount in income for tax purposes, depending on the circumstances. When you borrowed the money you were not required to include the loan proceeds in income because you had an obligation to repay the lender. When that obligation is subsequently forgiven, the amount you received as loan proceeds is normally reportable as income because you no longer have an obligation to repay the

lender. The lender is usually required to report the amount of the canceled debt to you and the IRS on a Form 1099-C, Cancellation of Debt.

Here's a very simplified example. You borrow \$10,000 and default on the loan after paying back \$2,000. If the lender is unable to collect the remaining debt from you, there is a cancellation of debt of \$8,000, which generally is taxable income to you.

Is Cancellation of Debt income always taxable?

Not always. There are some exceptions. The most common situations when cancellation of debt income is not taxable involve:

- Qualified principal residence indebtedness
- Bankruptcy: Debts discharged through bankruptcy are not considered taxable income
- Insolvency: If you are insolvent when the debt is cancelled, some or all of the cancelled debt may not be taxable to you.
- Certain farm debts
- Non-recourse loans: A non-recourse loan is a loan for which the lender's only remedy in case of default is to repossess the property being financed or used as collateral. That is, the lender can not pursue you personally in case of default. Forgiveness of a non-recourse loan resulting from a foreclosure does not result in cancellation of debt income. However, it may result in other tax consequences.

These exceptions are discussed in detail in Publication 4681.

Speak with your financial advisor and/or legal representative to understand your particular situation and any possible repercussions!

The Short Sale Package

DOCUMENTS REQUIRED BY MOST ALL LENDERS/SERVICE PROVIDERS:

- Letter of Authorization
- Hardship Letter
- 2 years Tax Returns (Only the summary pages, not all the attachments)
- 2 Months Bank Statements
- 2 Months Pay Stubs
- Monthly Expense Breakdown
- Listing Agreement
- Title Prelim/Cursory Title Search (from Title)
- Purchase Contract with all Counters and Addenda
- MLS Sheet (Agent will provide)
- Pricing Archive: MLS Plano's showing systematic drops in pricing (Agent will provide)
- Comparable Market Activity (Agent will provide)
- Showing Activity (if available): LOCKBOX LOGS!!!!!! (Agent will provide)
- Showing Feedback (if available): Tours, REALTOR® Comments, Automated Logs, notes (Agent will provide)
- Tex Record
- Estimated HUD1 (from Title, Agent will provide)

Additional documents may be required.



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THIRD PARTY AUTHORIZATION FORM

To Whom It May Concern:

Date:

I, _____ and _____
 Authorize my REALTOR® _____ and/or
 Christa Lawcock; Lynn Leclair; Jerome Jay Graves; and associates of Principal
 Residential Group, LLC and/or Arizona Diversified Realty and my Title Company,
 _____ to speak on my behalf, receive information, and negotiate
 with all interested parties associated with the sale of my property at

 (Address)

 (City) (State) (Zip)

I can be reached at:

 (Home Phone)

 (Cell Phone)

 (Email)

My Social Security Number ends in _____
 (Final Four Digits)

The Loan Numbers associated with this are:
 _____ and held by _____
 (Loan Numbers) (Lender/Institutions Name)

_____ and held by _____
 (Loan Numbers) (Lender/Institutions Name)

Sincerely,

 (Printed Name) (Signature) Date

 (Printed Name) (Signature) Date



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NOTICE OF INTENT AND DISCLOSURE

I have reviewed the information in the Arizona Association of Real Estates Short Sale Sellers Advisory.

I, _____ and _____ understand and agree that Principal Residential Group, LLC and/or Arizona Diversified Realty, its Designated Broker, Broker Associates, and licensees are not authorized or qualified to provide financial, legal, or tax advice, and Broker/Company and its licensees make no representation regarding the above items. Therefore, Buyer and Seller are advised to obtain professional tax and legal advice prior to and/or throughout the Short Sale process. I/We indemnify and hold harmless my/our Brokerage and its licensees against any and all claims, damages, losses, expenses or liabilities including attorneys' fees and costs incurred by Broker in any defense thereof arising from Broker's role.

Sincerely,

(Printed Name)

(Signature)

Date

(Printed Name)

(Signature)

Date

How to write a Hardship Letter

(Adapted from NeighborWorks)

A financial hardship results from an involuntary reduction in income or an unavoidable increase in expenses.

Common Involuntary Reductions of Income:

- Unemployment
- Mandatory reduced hours or hourly wage
- Under employment after loss of previous job
- Death of borrower
- Decline in business earnings if self employed
- Permanent or short term disability
- Serious illness of a household member
- Divorce

Unavoidable Increases in Expenses:

- Major medical expenses
- Disaster
- Urgent property repairs
- Increase in child care expenses
- Mortgage loan and payment changes

A hardship letter is a brief and to the point overview of the homeowner's situation. It is ideally only four paragraphs and no more than two pages.

The letter must include:

- Homeowner's name(s), address and phone number(s)
- Loan number(s)

The first paragraph should include other relevant details about the loan or the property, such as the number of months delinquent, property value, etc.

The second paragraph should include:

- A matter fact description of what caused the default
- Avoid blaming other for what occurred

The third paragraph should provide an overview of the homeowner's financial situation:

- Actions the homeowner has taken to reduce expenses and increase income
- Financial counseling or other steps the homeowners have taken to resolve the situation
- The amount of money the homeowner has saved to pay towards the delinquency

The fourth paragraph should briefly outline the desire to prevent foreclosure.

- Reasons why the homeowners believe they will be successful
- Demonstration of their commitment to see it through to its end

The last paragraph should indicate the preferred times and methods for contacting the homeowner (and their HUD approved housing counseling agency, if applicable).

Documents to attach:

- Financial Statement
- Income and expense verifications
- Documents that support or verify the hardship
- Verification for anticipated changes to income and expenses
- Other documents requested by servicer or counselor

To help you get started on your own hardship letter, please see the [Hardship Letter Sample](#).

Hardship Letter

-Sample-

Date
Lender's Name
Lender's Address
Lender City, State, Zip

Re: Your Loan Number

Dear Loss Mitigation Manager:

Our names are/my name is _____ and I've/we've been paying the mortgage on our home at [Address] for ___ years now. I'm/We're writing to you to explain why I/we have unfortunately fallen behind on our monthly payments and are in need of your help.

Explain your Hardship (include dates and specific incidents that caused you to get behind, also, if applicable; explain how it has been resolved).

Example:

My income has been reduced (or loss) due to unemployment, underemployment, reduced job hours, reduced pay or a decline in self-employed business earning. Or my household financial circumstances have changed. There has been a death in the family, serious or chronic illness, permanent or short-term disability, increases in family responsibility, and provide the details.

My expenses have increased and we/I have sat down with my/our family and taken a very hard look at our financial situation. Examples to explain may include- Monthly mortgage payment has increased or will increase, high medical and health-care costs, unexpectedly high utility bills, and increase in property taxes. Or my cash reserves are insufficient to maintain the payment on my mortgage loan and cover basic living expenses at the same time – provide details.

We all have agreed to make the following sacrifices in order to make certain that we can pay our mortgage on time. I have met with HUD Approved Non-profit Housing Counseling Agency Counselor and have saved \$_____ to pay towards my late payments. Explain what steps you have taken to correct your Financial Position (cut back on spending, canceled some things... cable, eliminated activities, met with Credit Counseling services).

My family and I are truly grateful for the opportunity that you've given us to own our home and have every intention of keeping it for a long while, as well as making timely mortgage payments to you for it.

Thank you again for your time. We truly hope that you will consider working with us. We are anxious to get this settled so we can move on.

Sincerely,

(Ask everyone in your family to sign the letter.)

Address, City, State, Zip Code

Include your phone number; alternate phone numbers

*Example courtesy of the Arizona Attorney General's Office©2009

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The Hardship Letter

(in plain English for the rest of us...)

There is no “right” or “wrong” hardship letter.

There is, however, a way to ensure that your hardship letter is read and considered. While you may wish to explain in detail your circumstances, please remember that the banks are receiving over a million short sales a MONTH, and brevity is key. A hardship letter should be no longer than 1 page in length, and should include the information provided below.

You should have one hardship letter per lender.

Dear Loss Mitigation Department Specialist:

Begin with when you bought the property, and include a brief description of the length of time you have owned it. Explain your current financial situation, and why you are seeking a short sale. Be brief, but be specific! If you have timelines, add them here.

Discuss whether you are currently maintaining the property. If you are living in the property, include this; if it is currently occupied by another party, notate this. If the home is vacant, but you are maintaining utilities, include this information.

Ask that they consider allowing you to short sale the property, as it is in the best interest of the bank, the neighborhood, and the home itself.

Notate that you have retained the services of your Agent by name; firm’s name; and the date that the home was listed for sale.

Close by including your contact information and that of your agent.

Please note: You will also include a copy of the Financial Information Worksheet along with this letter!

Sample Hardship Letter

John and Abigail Smith
123 Pacific Avenue
Phoenix, Arizona 85323
Home: (602) 222-2253
John Daytime: (602) 222-1111
Abigail Daytime: (602) 222-2222
john@johnqpublic.com Abigail@johnqpublic.com

Loss Mitigation Department October 2, 2008
Bank of America
123 Atlantic Avenue
New York, NY 11219
RE: 123 Pacific Avenue, Phoenix, AZ 85323
Loan # 12345678

Dear Loss Mitigation Specialist:

My family purchased the above reference home in April 2008. AT the time, I was employed full time by Home Depot, and business was very good. Our family's financial condition was such that we could easily afford our home. Unfortunately, a downturn in the market caused my company to reduce its workforce, and my salary has been cut rather dramatically.

We have reviewed our finances, cutting expenses everywhere possible. While we love our home, we can no longer afford to meet our mortgage obligation, and at this time, a modification of our loan has not been forthcoming. As such, we respectfully request that you consider a short sale.

We have hired Christa Lawcock and her Short Sale Loss Mitigation Team at Principal Residential Group, LLC to market our home, find a qualified Buyer for it, and negotiate the short sale. Though the Arizona housing market is flooded with similar properties, we are hoping to secure a Buyer quickly. While the home is being marketed, we are continuing to live in the home and maintain the property, including keeping all utilities on, the home's maintenance needs met, and securing the home from theft, vandalism, or damage of any kind. While this is a financial hardship on us, we will continue to do this for as long as we can, we believe this is in the best interest of your bank, the home, and of the neighborhood itself.

We thank you for your consideration, and look forward to resolving this situation quickly. If you have any questions, comments, or concerns, I can be reached at 602.222.111.

Sincerely,

John Q. Public

Enc.: Financial Information Worksheet

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FINANCIAL WORKSHEET

INDEX NUMBER: _____ NAME OF CASE: _____

Borrower's Name:			
Co-Borrower's Name:			
Property Address:			
Mailing Address : (If different than property address)			
Home Telephone:		Cell Phone:	

MONTHLY INCOME

DESCRIPTION	INCOME BORROWER	INCOME CO-BORROWER	TOTAL
Net Salary			
Overtime			
Commissions/Bonuses			
Unemployment Income			
Child Support/Alimony			
Social Security/Disability			
Pension/Retirement			
Other income			

COMBINED MONTHLY EXPENSES

COMBINED ASSETS

DESCRIPTION	MONTHLY PAYMENT	DESCRIPTION	ESTIMATED VALUE
Mortgage		Home	
2 nd Mortgage		Other Real Estate	
Rent/Other Mortgage		Automobile	
Property Taxes		Checking Account	
Homeowner's Insurance		Savings Account	
Utilities (Total)		401K	
Child Support/Alimony		Stocks/Bonds/CD'S	
Automobile Loan		IRA/Keogh Account	
Auto/Transportation Expense		Other	
Insurance (Auto, Health, Life)			
Child/Dependent/Elderly Care			
Credit Cards (Total)			
Student/Personal Loans			
Doctor/Medical Bills			
Food & Clothing			
Other			

Please briefly explain your reason for delinquency including date(s) of hardship:

 Have you sought legal representation? _____ or credit counseling? _____

Signature

Date

Signature

Date

Loan Servicer Telephone Numbers

Accredited Home Lenders	877-683-4466	https://www.accredhome.com
Acqura Loan Services	866-660-5804	http://www.acqura.net
American Home Mortgage Servicing, Inc.	877-374-3100	https://online.ahmsi3.com
Aurora Loan Servicing	866-519-3090	https://www.myauroraloan.com
Avelo Mortgage	800-999-8501	www.littonloan.com
Bank of America	800-846-2222	www.bankofamerica.com
Carrington Mortgage Services, LLC	800-790-9502	myloan.carringtonms.com
Chase (Prime, Subprime and Home Equity)	866-550-5705	www.chase.com
Citigroup, Inc. (Citi Mortgage/Citi Residential)	866-915-9417	www.citigroup.com/citi/citizen/ community/homeownershippreservation/
Countrywide Home Loans	800-669-6650	http://my.countrywide.com
EMC Mortgage Corporation / Bear Sterns	866-550-5705	emcmortgagecorp.com
First Horizon Home Loans	800-364-7662	www.firsthorizon.com/
GMAC Mortgage	800-799-9250	www.gmacmortgage.com
Homecomings Financial	800-206-2901	www.homecomings.com
Home Loan Services, Inc. (d/b/a First Franklin Loan Services & NationPoint Loan Services)	800-500-5022	www.viewmyloan.com www.nationpoint.com
HomeEq Servicing	877-867-7378	www.homeq.com
HSBC Finance-Beneficial	800-333-5848	http://www.beneficial.com
HSBC Finance-HFC	800-333-5848	www.hfc.com
HSBC Mortgage Corporation	888-648-3124	www.us.hsbc.com
HSBC Mortgage Services	800-365-6730	www.hsbcmortgageservices.com
IndyMac Federal Bank	866-355-7273	www.imb.com
Litton Loan Servicing	800-999-8501	www.littonloan.com
LoanCare Servicing Center	800-909-9525 800-274-6600	www.myloancare.com/HomeRetention Email: customersupport@myloancare.com
MetLife Home Loans	800-922-6267	www.metlifehomeloans.com
National City Mortgage Corporation	800-523-8654	www.nationalcitymortgage.com
Nationstar Mortgage, LLC	888-480-2432	Email: customer.service@nationstarmail.com
Ocwen Loan Servicing, LLC	877-596-8580	http://www.ocwencustomers.com
Residential Credit Solutions	800-737-1192	https://www.residentialcredit.com/
RoundPoint Mortgage Servicing	877-426-8805	Email: Customer.Service@roundpointmortgage.com
Saxon Mortgage Services	888-325-3502	https://www.saxononline.com
Select Portfolio Servicing, Inc.	800-258-8602	https://www.spservicing.com/
SunTrust Mortgage, Inc	800-443-1032, option 3	www.suntrustmortgage.com
SunTrust Bank (Consumer Lending)	888-886-0696	Email: equityhomeretention@suntrust.com https://www.suntrust.com
SunTrust Mortgage Construction Permanent Loans	877-657-8433	www.suntrustmortgage.com
Taylor, Bean & Whitaker	888-225-2164	www.taylorbean.com
Vericrest Financial	800-401-6587	https://www.vericrestfinancial.com
Wachovia	800-922-6267	https://www.wachovia.com
Washington Mutual, Inc	866-550-5705	https://www.wamu.com
Wells Fargo Home Mortgage	866-488-2028	www.wellsfargo.com
Wells Fargo Financial	800-275-9254	www.financial.wellsfargo.com
Wilshire Credit Corporation	888-917-1050	www.wcc.ml.com