



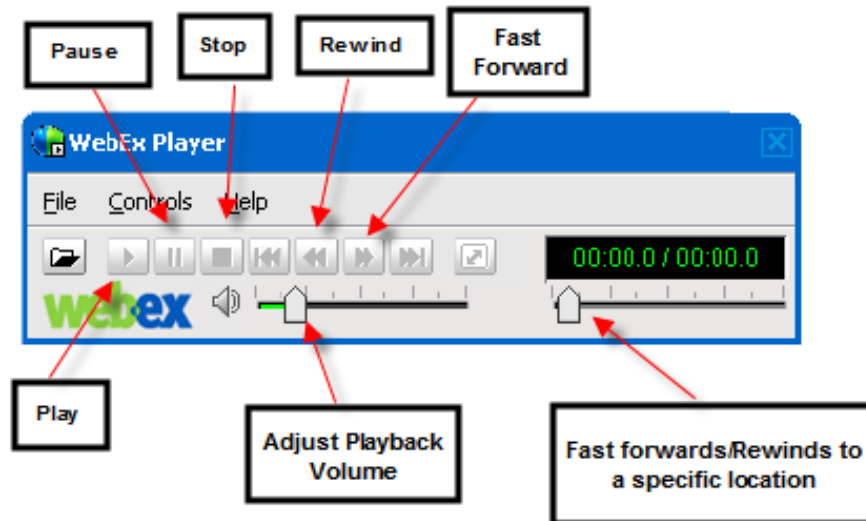
# **Introduction to Short Sales for the Real Estate Professional**

**2008**



# Tools and Tips

- ✓ Close all other applications to enhance your workstation's performance.
- ✓ Maximize the window used for viewing this recording.
- ✓ For technical Support, call (866) 229-3239



Visit our Learning Center to view other distance learning offerings

[www.freddiemac.com/learn](http://www.freddiemac.com/learn)

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# Objectives

**We want to discuss:**

- **Our mission to homeowners and the neighborhoods in which they live**
- **Background and key statistics on delinquencies and workouts**
- **Real Estate Professional's perspective on current environment**
- **Retention and Liquidation Workout Options**
- **Short sales**



# Mission

Freddie Mac is dedicated to:

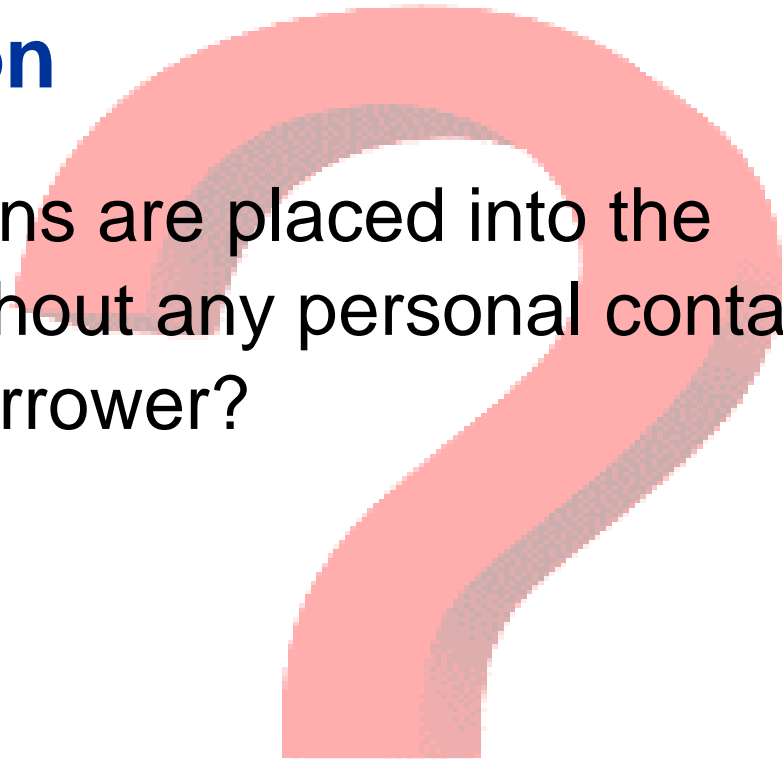
- Supporting its servicers' early intervention efforts to help more borrowers stay in homes they can afford and want to keep
- Avoiding foreclosure when homeownership retention is not possible
- Reducing credit losses while maintaining neighborhood values
- Reducing the percentage of borrowers who go to foreclosure without ever making contact with their servicer



## No Contact question

What percentage of loans are placed into the foreclosure process without any personal contact being made with the borrower?

- a) 5%
- b) 6%
- c) 10%
- d) 50%

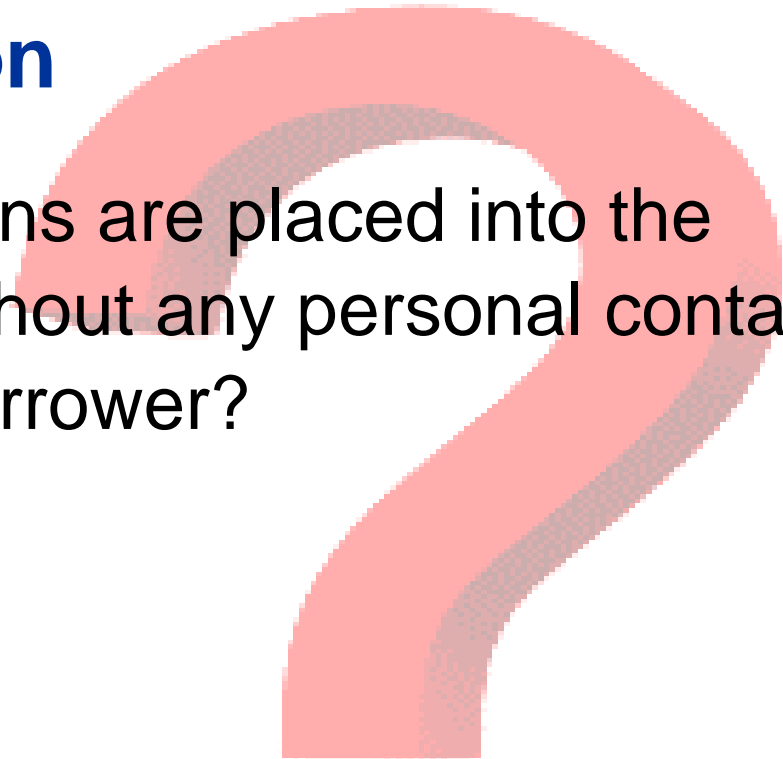




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# Background

- Loan modifications have been the workout of choice for the last several years
- As property values decrease, there will likely be an increase in the number of short sales which will keep REO inventories down and preserve neighborhoods



# Background

- It's becoming more difficult to negotiate short sales due to the frequency and size of junior liens
- Many real estate professionals are new to the short sale experience
- As short sales increase, the default servicing industry must re-develop relationships with all parties





# Key Statistics

## Delinquent Loan Inventory

- 30 days delinquent at record number
- 90 days or greater continue to grow
- Foreclosure sales at all time high



## Environment

- House prices/valuation falling in many areas of the US
- Housing stock with high inventory
- Tighter Credit Market makes it harder to finance



# Key Statistics

## Data

- Completing high number of workouts a year
- 75% of Loan Modifications 'cure' for good
- 70% of late stage repayment plans fail versus 40% of early stage
- Servicers report that less than a 50% contact rate with borrowers that went to foreclosure sale
- Roper survey showed the majority of borrowers do not contact their Servicers, but are willing to talk to a financial counselor.





# Workout Options



## Retention:

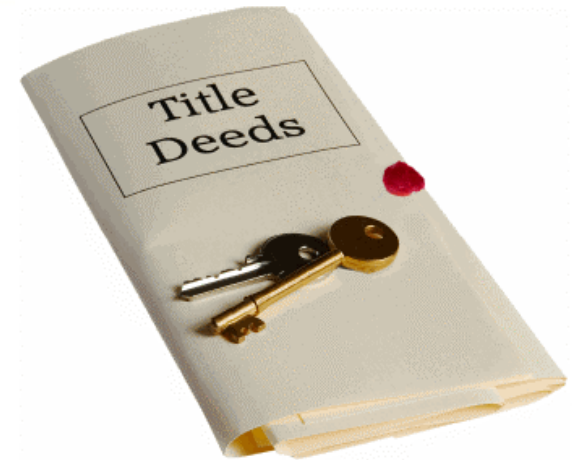
- Full or partial reinstatement
- Short-term or long-term forbearance
- Repayment plan
- Loan modification
- FHA partial claim / MI claim advance



# Workout Options

## Liquidation:

- Full payoff
- Make whole preforeclosure sale
- Short sale
- Deed in lieu of foreclosure
- Delinquent loan assumption





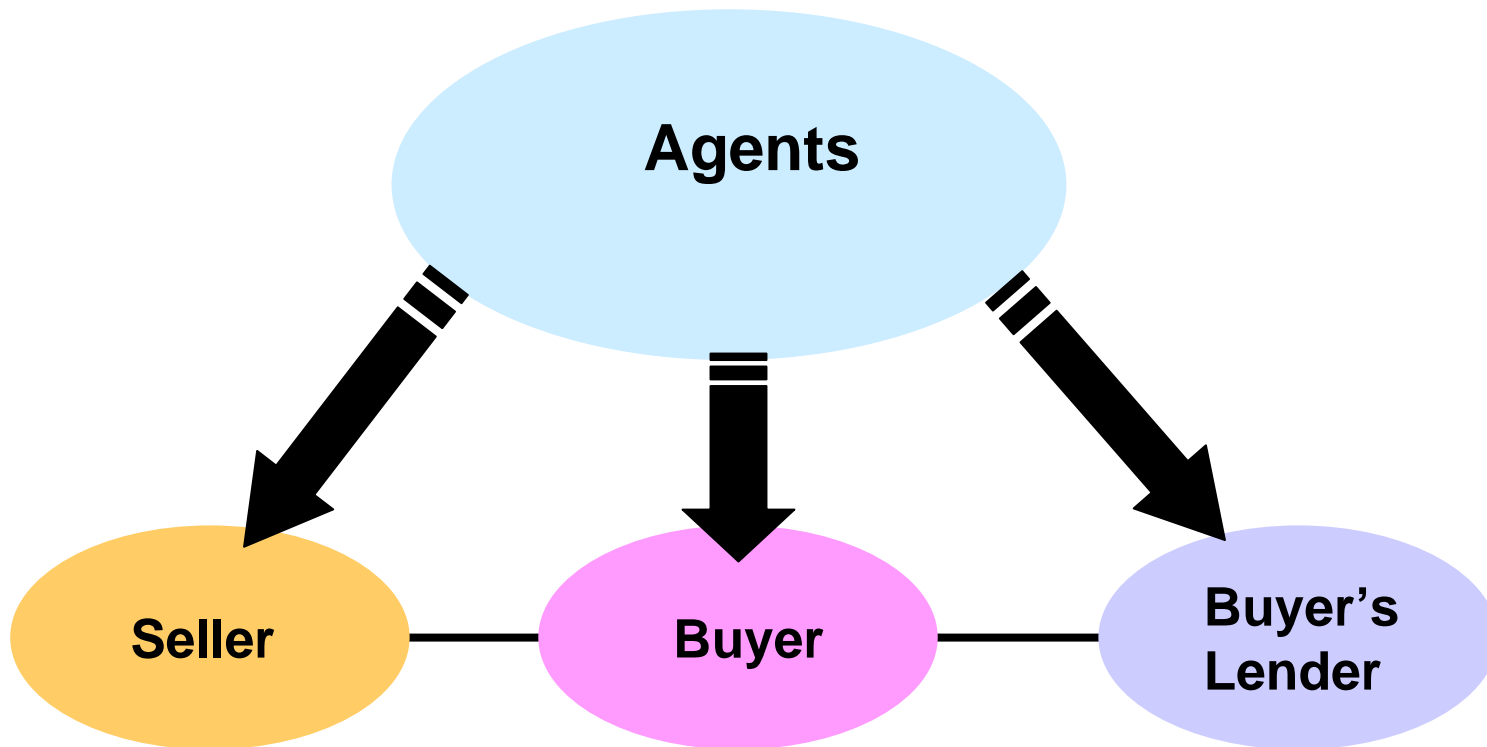
# What Is a Short Sale?

A short sale occurs when the net proceeds from the sale of a property are insufficient to pay off the first lien

Property value -	\$150,000	
Total amount due on first lien	\$178,000	
Sales price -	\$148,000	(99% of value)
6% Commission and closing costs	(\$ 13,000)	(9% of sales price)
Less funds from homeowner for cc	\$ 1,000	
Payment to \$20K lienholder	(\$ 2,000)	
Net proceeds -	\$134,000	(90% of value)
Shortage/loss -	<b>(\$44,000)</b>	
20% MI Claim (100% of claim)	\$35,600	
Shortage/loss	<b>(\$ 8,400)</b>	



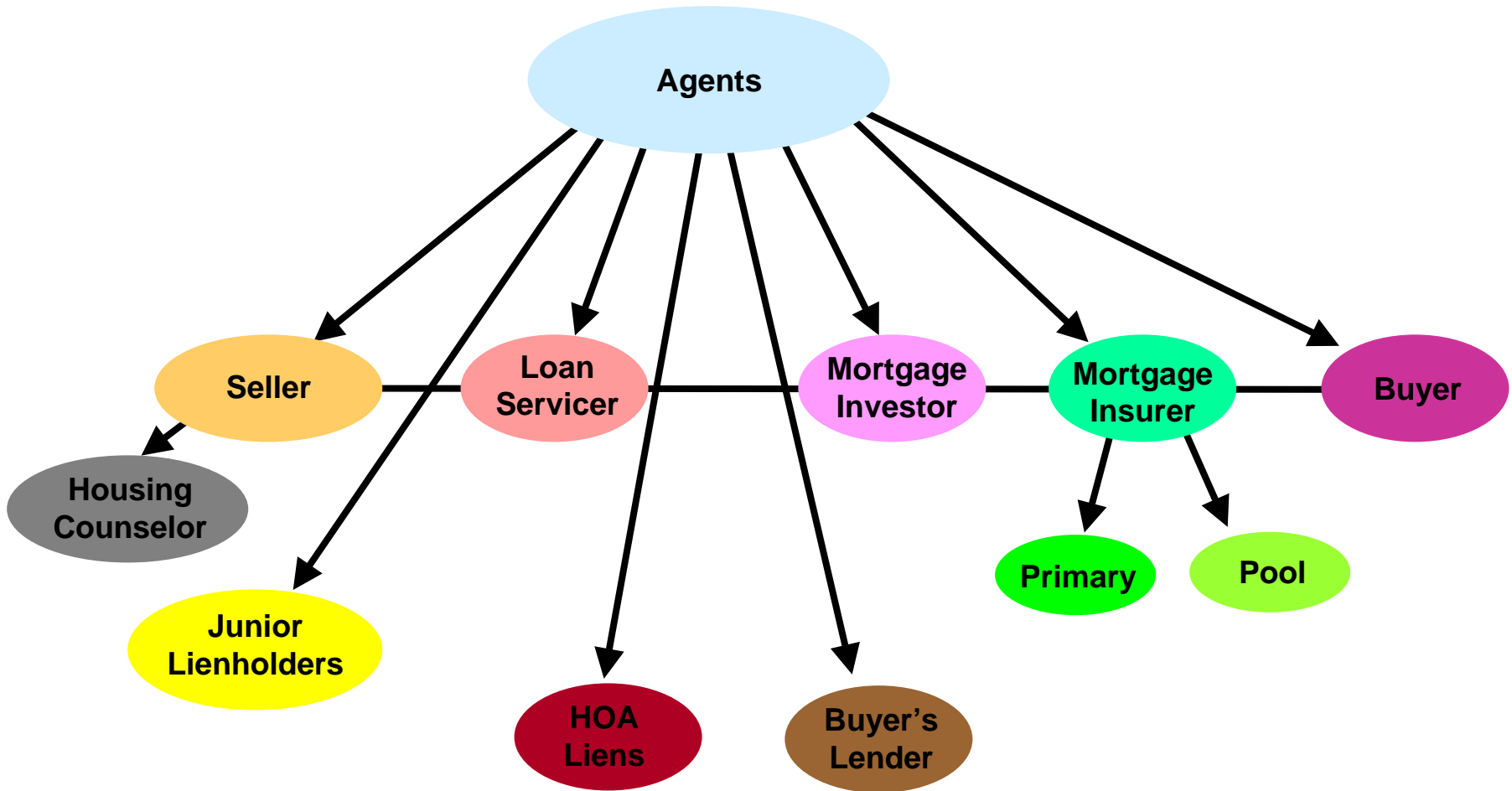
# Parties in Typical Real Estate Transactions



Source – Effective Short Sale Workouts, Genworth Financial, Inc.



# Parties in a Short Sale



Source – Effective Short Sale Workouts, Genworth Financial, Inc



# Short Sale Process



- Short sale closes
- Seller contributes to minimize the loss based on ability
- Seller avoids foreclosure
- The investor and the MI company minimize losses
- Real Estate Professional closes an additional sale
- Neighborhood avoids the stigma of foreclosure

Source – “Effective Short Sale Workouts” Genworth Financial, Inc





# Who Benefits from a Short Sale?

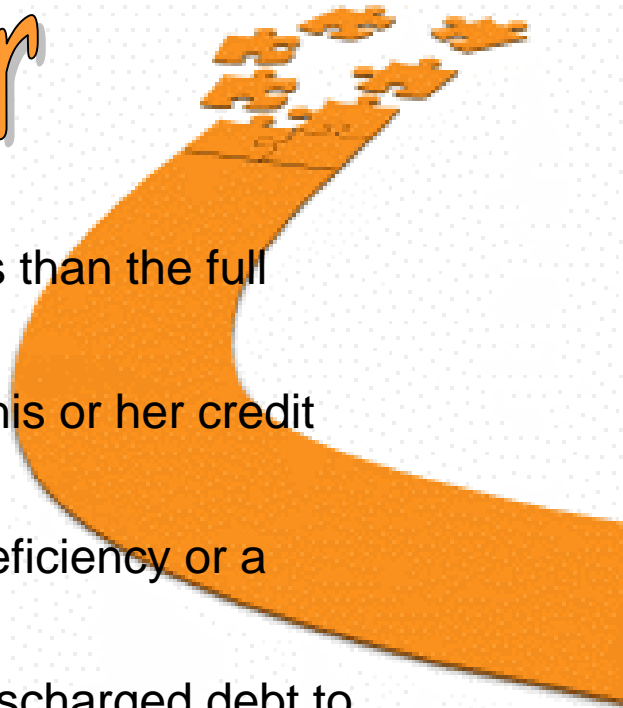




# Who Benefits From a Short Sale?

## Homeowner

- Satisfies the debt for less than the full amount
- Avoids a foreclosure on his or her credit record
- Avoids the pursuit of a deficiency or a deficiency judgment
- May avoid reporting of discharged debt to the IRS



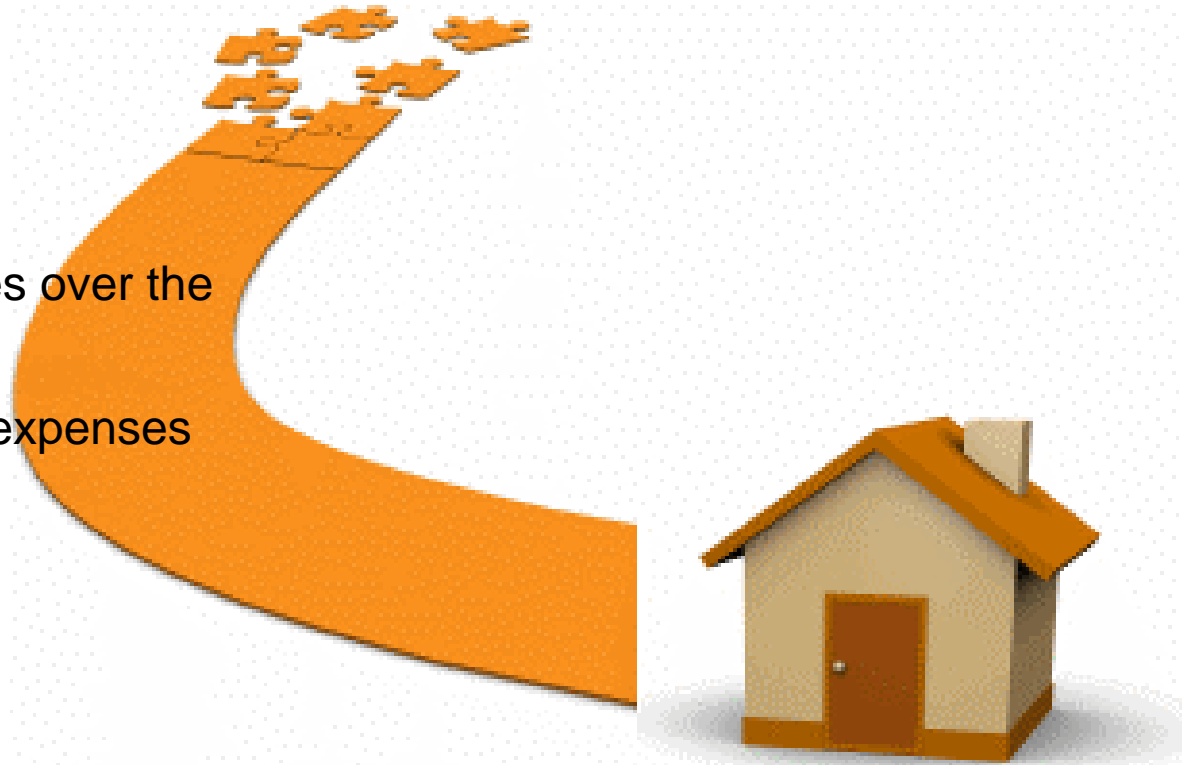
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



# Who Benefits From a Short Sale?

## Investor

- Potentially reduces losses over the insured amount
- Avoids an REO and the expenses incurred



Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



# Who Benefits From a Short Sale?

## Real Estate Professional

- Enhances relationships with buyers and sellers
- Increases Listings
- Increases Sales



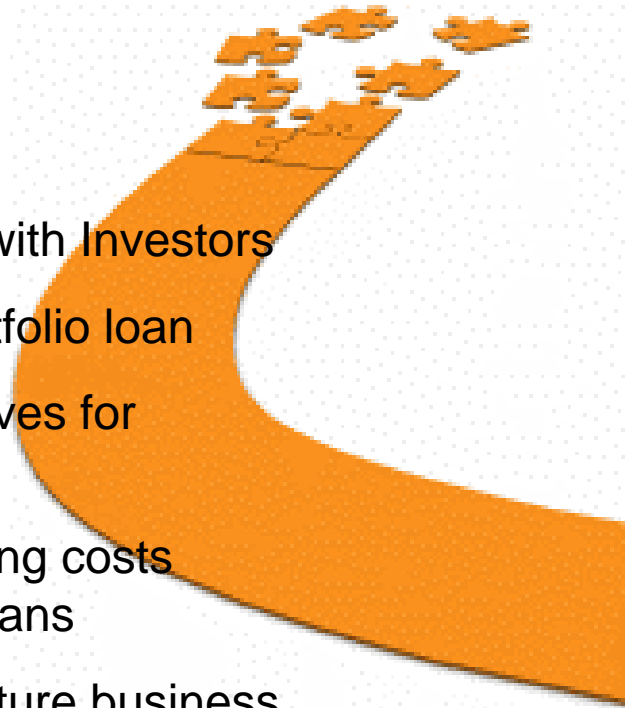
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



# Who Benefits From a Short Sale?

## Servicer

- Enhances relationships with Investors
- Avoids an REO on a portfolio loan
- Potential investor incentives for completed Short Sales
- Avoids expensive servicing costs incurred on delinquent loans
- Enhances goodwill for future business



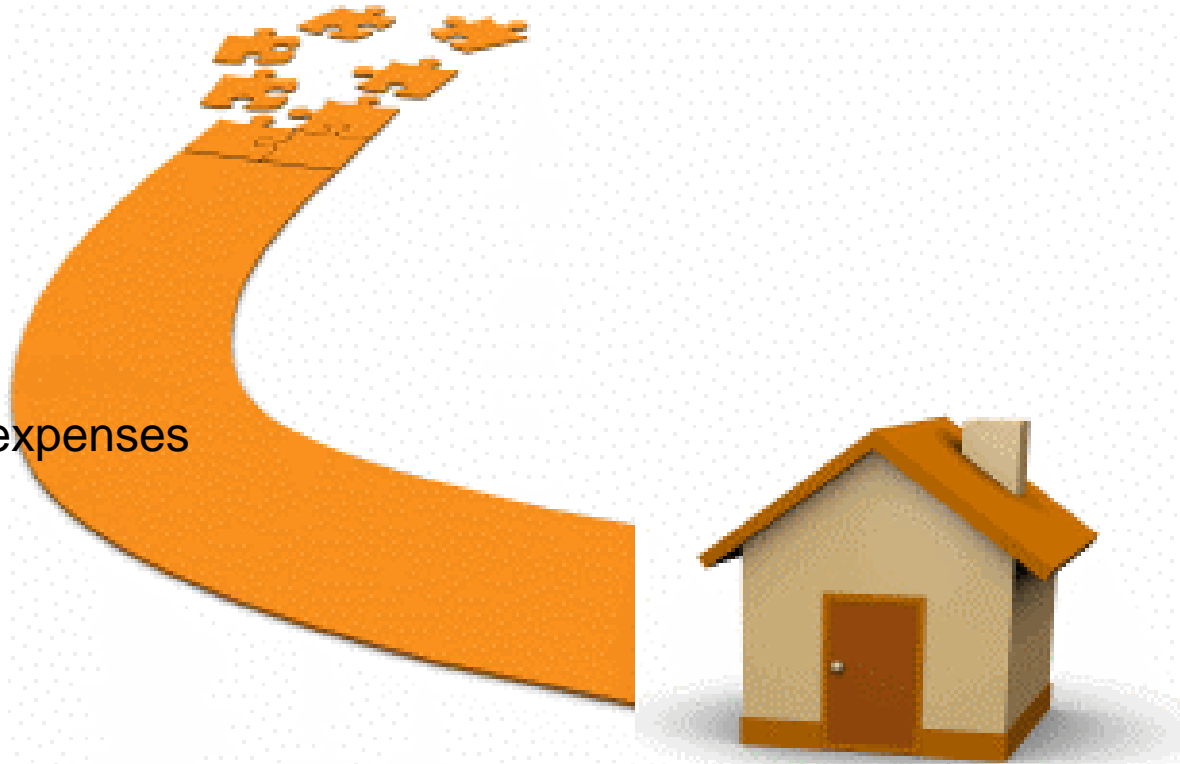
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



# Who Benefits From a Short Sale?

MI Company

- Reduces claim losses
- Avoids an REO and the expenses incurred

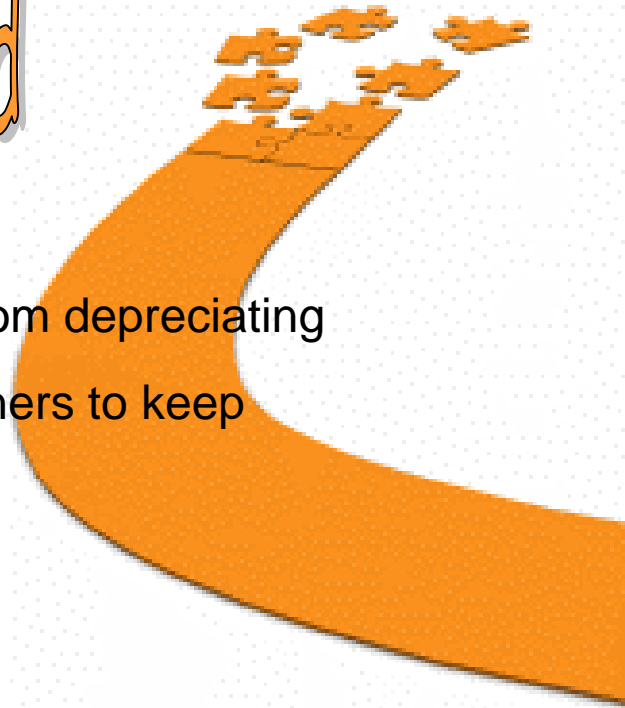




# Who Benefits From a Short Sale?

## Neighborhood

- Keeps housing values from depreciating
- Allows existing homeowners to keep refinance efforts.





# Short Sale Preparation

## Pre-listing interview with homeowner/ seller

- Does homeowner really want/need to sell?
- Discuss Other Workout Options
- Obtain payoff statement
- Determine all contingencies at time of listing (subject to investor approval, etc.)
- Advise the seller that their financial participation in the sale is requested







# Short Sale Preparation

- Time is of the essence
- Start with first lien
- Communicate with junior lien holder(s) and know their payoff requirements
- What is required by the seller's servicer (loss mitigation department)
  - ✓ *See workout documentation*





# Base Documents for a Short Sale

## General workout documentation

- Hardship letter
- Seller's financial statement (BFS 1126)
- Recent pay stub or P&L/tax return if self employed
- Complete sales contract signed by all parties
- Estimated seller's closing costs or estimated HUD-1
- Buyer pre-approval letter
- Bank Statements (not required but helpful)
- Credit Report



# Short Sale Requirements

- Interior broker's price opinion (BPO) with the 90-day "as is" marketing timeframe
  - ✓ Sale is always "as is"
  - ✓ Will accept more recent comps to support current value
- **Net proceeds required**
  - ✓ Percentage of interior BPO value
  - ✓ Closing costs and commissions
  - ✓ Includes any payment to junior lienholders
- **Seller's financial participation in the transaction based on ability**





# Short Sale Hurdles

- Inform seller of financial participation in the usual seller's closing costs
- Have better or recent comps available
- Get buyers pre-approved through reputable lenders
- Must be arms length transaction – notarized affidavit if unclear



# Short Sale Hurdles

- Know who the owner (Investor) of the loan is
- Present market value offers
- Negotiations with all junior lien holders
- Clear, easy to read documentation

AGREEMENT

...Borrower Note, is made this ...  
...known as "BORROWER" ...  
...known as "the ...  
...must be ...



# Short Sale Hurdles

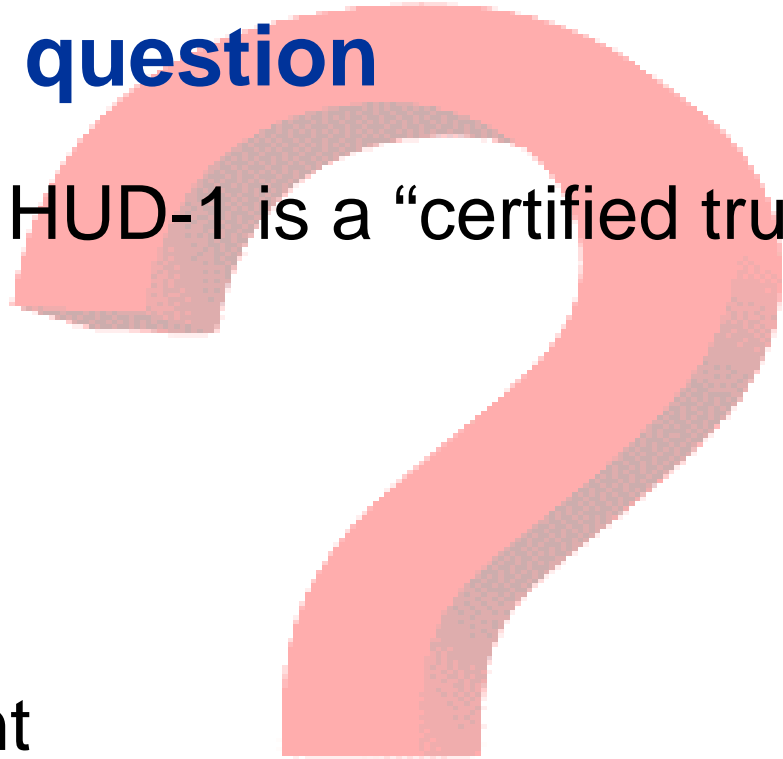
- Buyer on HUD-1 must be same as buyer on approval letter
- Seller receives no commission or proceeds from sale
- Include Power Of Attorney when sending HUD-1 to servicer
- HUD-1 must be “certified true final”



## Certified True Final question

Who certifies that the HUD-1 is a “certified true final”?

- a) Servicer
- b) Closing Agent
- c) Real Estate Agent
- d) Investor



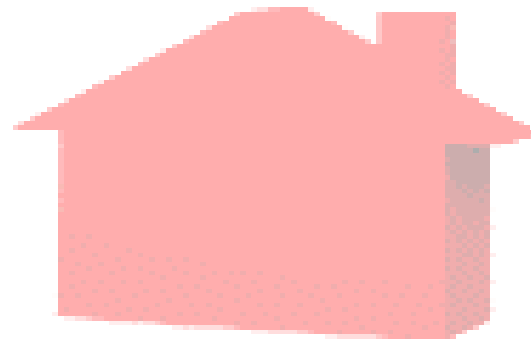
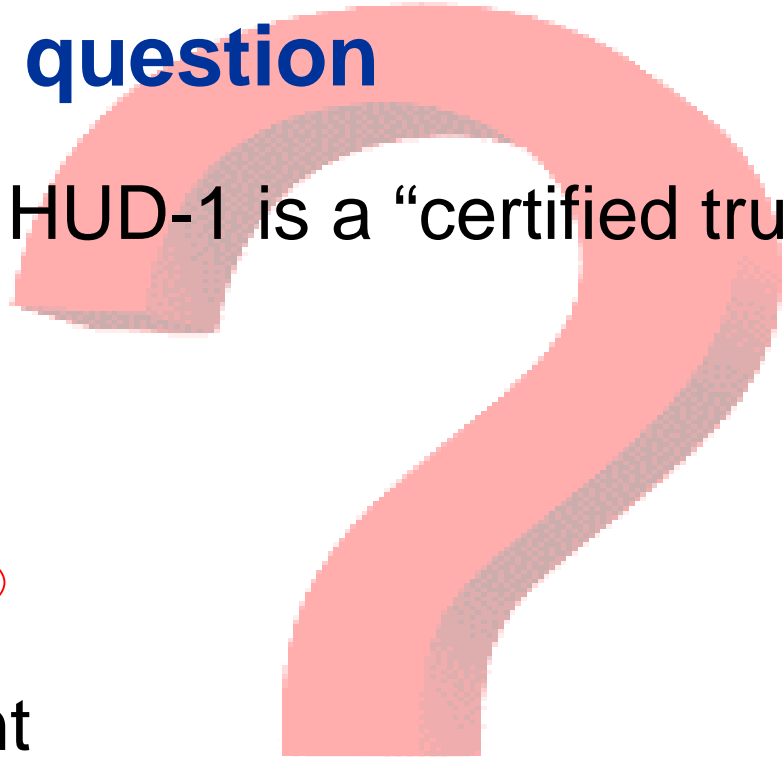




## Certified True Final question

Who certifies that the HUD-1 is a “certified true final”?

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# Short Sale Hurdles

- Promissory notes must be prepared by Freddie Mac
- Executed promissory note must accompany HUD-1
- Do not reduce seller cash contribution
- Changes on HUD-1 to contract sales price or of buyer not pre-approved will negate the short sale



# Resources

- Reinforce short sale as a workout option with servicers
- Continue to educate homeowners to avoid foreclosure
  - ✓ Retention options
  - ✓ Liquidation options
- Train and educate real estate professional
  - ✓ Webinar
  - ✓ Conference
  - ✓ Online reference material



# Resources

[http://www.FreddieMac.com/corporate/buyown/english/avoiding\\_foreclosure/index.html](http://www.FreddieMac.com/corporate/buyown/english/avoiding_foreclosure/index.html)

[http://www.FreddieMac.com/corporate/buyown/spanish/avoiding\\_foreclosure/index.html](http://www.FreddieMac.com/corporate/buyown/spanish/avoiding_foreclosure/index.html)



# Recap



## We discussed:

- Our mission to homeowners and the neighborhood in which they live
- Background and key statistics on delinquencies and workouts
- Real Estate Professional's Perspective on current environment
- Retention and Liquidation Workout Options
- Short sales



# Questions

## Training

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National Trainer

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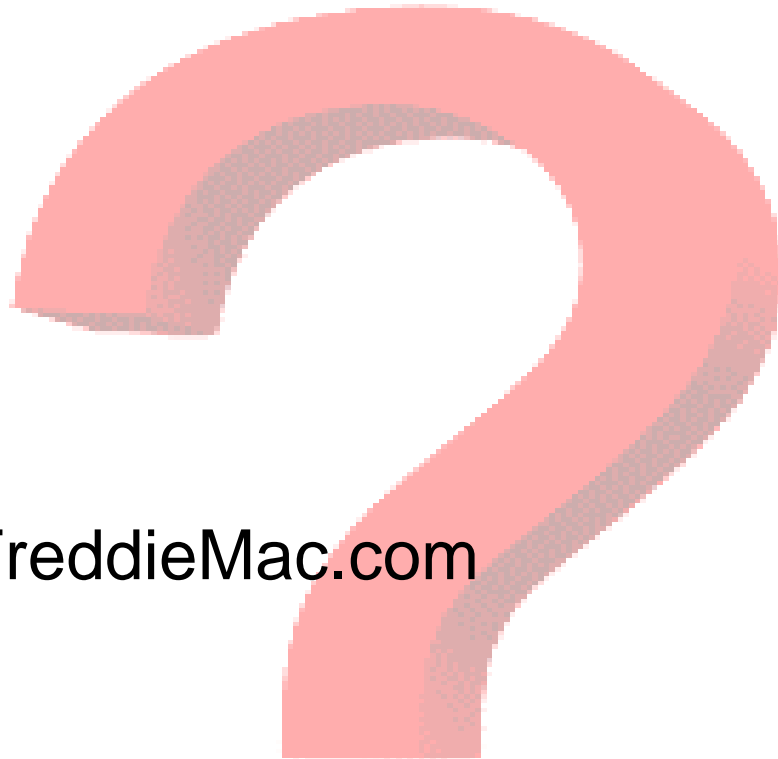
## Loss Mitigation

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Thank you for your  
participation!