SHOULD I SHORT SALE MY HOME?

HOMEOWNER'S GUIDE :

HOW TO SURVIVE THE WORST REAL ESTATE MARKET IN HISTORY

By

Diane Butler,Ph.D.

Contact Diane Butler, Ph.D.
CA real estate broker
626-641-0346
drdbroker@gmail.com
http://www.DianeButler.net

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 author is not an accountant or an attorney.

Table Of Contents

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 is projected to level off in mid to late 2009. In other words, months and months of more losses for the homeowner…

Option 1

Homeowners 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 late 2009, 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 2010 or early 2011 the market then starts to slowly 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

Homeowners list 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. Homeowners move to a rental home in the same neighborhood and pays rent of $2000 per month: Half of their previous house payment. Homeowners save the difference between what he had been paying for the owned home and his new rent payment. $26,400 per year.

Yes, the homeowners do have **significant negative credit r**amifications 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 they can sit out the real estate recession and jump back in when the market has hit bottom. If they time it right, they can buy at the market's bottom. This time they 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 300 + or - points** and then prevent him from buying using a government-backed mortgage for up to 24 months. With a *foreclosure*, the credit is damaged for up to 5 years preventing someone from obtaining a government-backed mortgage.

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.

Chapter Two

How Bad Is It?

One thing is certain: Foreclosures are on the rise. Cities in California, Ohio, Florida and Michigan 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, http://www.realtytrac.com

Foreclosure Activity Up 112 Percent From Q1 2007 California and Florida Cities Accounts for 13 of Top 20 Metro Areas -

RealtyTrac, the leading online marketplace for foreclosure properties, released its Q1 2008 U.S. Foreclosure Market Report™, which shows foreclosure filings — default notices, auction sale notices and bank repossessions — were reported on 649,917 properties during the first quarter, a ***23% increase*** *from the previous quarter and a* ***112% increase from the first quarter of 2007.***

*The report also shows that **one in every 194** U.S. households received a foreclosure filing during the first quarter. Foreclosure activity in the first quarter increased on a year-over-year basis in 46 out of the 50 states and in 90 of the nation's 100 largest metro areas, demonstrating that most regions of the country are seeing more foreclosures.*

Nevada, California, Arizona have the highest state foreclosure rates. One in every 54 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 were reported on 19,595 Nevada properties during the quarter, up 3 percent from the previous quarter and up 137 percent from the first quarter of 2007.

Foreclosure filings were reported on 169,831 **California** properties during the first quarter, the highest total among the states and a rate of one in every 78 households — the nation's second highest foreclosure rate. Foreclosure activity in California increased 32 percent from the previous quarter and was up nearly 213 percent from the first quarter of 2007.

Arizona documented the nation's third highest state foreclosure rate, with one in every 95 households receiving a foreclosure filing during the quarter.

Foreclosure filings were reported on 27,404 Arizona properties during the quarter, up 45 percent from the previous quarter and up nearly 245 percent from the first quarter of 2007.

Foreclosure filings were reported on 87,893 Florida properties during the first quarter, the second highest state total and giving Florida the nation's fourth highest foreclosure rate — one in every 97 households received a foreclosure filing during the quarter. Foreclosure activity in the state was up 17 percent from the previous quarter and up 178 percent from the first quarter of 2007.

Colorado foreclosure activity increased 33 percent from the previous quarter and 78 percent from the first quarter of 2007, and the state's foreclosure rate ranked No. 5 among the states. Foreclosure filings were reported on 18,996 Colorado properties during the quarter, a rate of one in every 110 households.

Other states with foreclosure rates among the top 10 were Georgia, Michigan, Ohio, Massachusetts and Connecticut.

The Q1 2008 U.S. Foreclosure Market Report also ranks the nation's 100 largest metropolitan areas by foreclosure rate. California and Florida metro areas accounted for 13 of the top 20 metro foreclosure rates, with the California cities of Stockton and Riverside-San Bernardino taking the No. 1 and No. 2

spots.

One in every 30 Stockton households received a foreclosure filing during the quarter — 6.6 times the national average — and one in every 38 Riverside-San Bernardino households received a foreclosure filing during the quarter — more than five times the national average. Other California metro areas in the top 20 included Bakersfield at No. 4, Sacramento at No. 5, San Diego at No. 9, Oakland at No. 10, Fresno at No. 12, Los Angeles at No. 17 and Orange County at No. 19.

Las Vegas documented the third highest metro foreclosure rate, with one in every 44 households receiving a foreclosure filing during the quarter. The metro area's foreclosure activity increased 1 percent from the previous quarter and 134 percent from the first quarter of 2007.

Detroit foreclosure activity in the first quarter decreased 22 percent from the previous quarter and was down almost 4 percent from the first quarter of 2007, but the metro area's foreclosure rate still ranked No. 6, with one in every 68 households receiving a foreclosure filing during the quarter. Phoenix foreclosure activity increased 46 percent from the previous quarter and 294 percent from the first quarter of 2007, and the metro area's foreclosure rate ranked No. 7, with one in every 70 households receiving a foreclosure filing during the quarter.

The highest ranked Florida metro area was Fort Lauderdale, which ranked No. 8 with one in every 73 households receiving a foreclosure filing during the quarter. Other Florida metro areas in the top 20 included Orlando at No. 13, Miami at No. 14 and Sarasota-Bradenton-Venice at No. 15. The foreclosure rate in Tampa-St. Petersburg-Clearwater ranked No. 21.

Other metro areas with foreclosure rates among the top 20 included Denver at No. 11, Atlanta at No. 16, Cleveland at No. 18 and Memphis, Tenn., at No. 20.

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.

What is 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, v 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 that at 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. **California** is not one of them.

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" who offers to purchase 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 he will 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**

This tactic is 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 renters 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 Assisstance:**

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 homeowners could have completed themselves.

5. **Counseling Agencies:**

Some groups, most of them online, calling themselves "counseling agencies" may approach the struggling homeowners asking them submit their information for a personal consultation to review their situation. The “counselor “ then proceeds to offer certain services for a fee. Most of the time these "special services" the homeowners paying for are actually FREE, such as negotiating a new payment plan with the lender, working out a forbearance, or lowering the interest rate. These are all things the lender will assist borrowers with at no charge.

Homeowners should be careful about giving ANYONE money online who claims to offer to assist them out of foreclosure. There are dozens of good, non-profit organizations and free counseling agencies that are ready and willing to assist.

6. **Short Sale Companies**.

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

NOT A SCAM: 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 <u>provided free of charge</u> by the Homeownership Preservation Foundation, a nonprofit dedicated to preserving homeownership.

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

> * 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.
> * 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.

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 will refinance the existing loan and include as part of the new loan any late payments and fees needed 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. This is 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. Essentially, this is no different than a foreclosure and will have the same negative credit ramifications.

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.*

Bankruptcy is a federal court action designed to help individuals repay their debts or eliminate their debts depending on their circumstances. The two most common "chapters" of bankruptcy are Chapter 7 and Chapter 13. Chapter 7 is commonly referred to as the "wipe out" bankruptcy and Chapter 13 as the "work out". Chapter 7 bankruptcies are geared towards liquidation of assets to repay creditors. Chapter 13 bankruptcies are designed to reorganize debts in an effort to repay all debt. 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 cannot. 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. These debts 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, all the assets are not sold to repay the debts. Instead, the court figures all the monthly payments on all the debts and discounts them for pennies on the dollar. It's a debt consolidation plan. Whatever amount is agreed upon has to be paid to the bankruptcy count 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 homeowners stay current with the mortgage payments and pay 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, homeowners can just let their home go to foreclosure. Basically, the borrowers does nothing . In this scenario, the homeowners leave with nothing in hand and a foreclosure on their 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 will 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.

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 lende*r.

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. 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.

Number 3

How do you, my listing agent get paid? Who pays the 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 I 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 loan 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 Effected?

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 18 to 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!

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.

* 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.

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 97% of the purchase price and put down 3 percent. In some instances, when combined with other types of loans, the down payment can be zero.

- 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! It's about to become significantly better than before, with higher limits and an easier appraisal process.

Chapter Ten

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

Most major lenders are freezing 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.

declined. 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 word 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.

If you decide you would rather sell your home using a short sale, the best and fastest way is to contact an experienced short sale real estate agent. In that case, your agent will make the calls.

After making that first call, 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!"

Here's the list:

Lender/Servicer Loss Mitigation
Phone Numbers & Contact Information:

ABM AMRO Mortgage (800) 783-8900
https://www.mortgage.com/C3/application.bus

Accredited Home Lenders (877) 683-4466 AMC

Mortgage Services (Also handles loans originated by Ameriquest and Argent) (800) 211-6926
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-
E-mail: ccnmail@alservices.com

https://www.alservices.com/Consumer/UI/SSL/Authentication/Login.aspx?ReturnUrl=%2fConsumer%2fUI%2fSSL%2fServ icing%2fDefault.aspx

Avelo Mortgage LLC (866) 992-8356*

Bank of America (800) 846-2222

BB&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

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*
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/htm/payment.html

Citi Financial Mortgage (800) 753-3673

Citimortgage (800) 283-7918

Countrywide (800) 262-4218
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
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
(888) 648-3124 Loss Mit
(732) 352-7519 Fax
http://us.hsbc.com/personal/mortgage/existing/difficulties.asp

Huntington National Bank (800) 323-4695

Indymac Bank (877) 736-5556
https://www.indymacbank.com/contactus/loanResolution.asp

Irwin Mortgage (888) 218-1988
https://www.irwinmortgage.com/wps/portal/!ut/p/cxml/
E-mail: deliquency.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-
https://www.littonloan.com/index.asp

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
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
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
https://myloan.newcentury.com/webapps/servicing/myloans/index.do

NovaStar Mortgage Loan Resolution Department (888) 743-0774

Ocwen Federal Bank (800) 746-2936 or (877) 596-8560
http://www.ocwencustomers.com/csc_fa.cfm

Option One (866) 711-1962 or (888) 275-2648
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
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

SkyBank (800) 290-3359

Sun Trust Mortgage (800) 634-7928
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
mailto:saveyourhome@waterfield.com
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
https://www.wellsfargo.com/mortgage/account/

Wendover Financial Services Corporation (800) 934-1081 or (800) 436-1022
http://www.wendover.com/borrowers.html

Wilshire Credit Corporation (888) 502-0100
http://www.wfsg.com/borrower/borrower.aspx

APPENDIX B

What's the difference between **Short Sale v 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**.
In a **Short Sale** lender or investor agrees to accept an amount less than actual amount owed on the property.
Criteria for a Short Sale: the borrower demonstrates a verifiable long term hardship.

In a **Short Payoff** 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, the lender extends a certain amount of "credit" to the borrower in the form of an unsecured line of credit or promissory note.

Criteria for a Short Payoff: the mortgage is current, the borrower has great credit, 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 reason your ability to pay changes and you 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 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 a short sale package. This time, though, *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, for instance, 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

APPENDIX C:

The Complete State-by-State Guidebook on the most Common Foreclosure Procedures.

This section is written for the purpose of providing current information. It is not the intention of any author or publisher, to provide the reader with specific legal, financial, tax, accounting or professional advice. Understand that each business transaction presents a whole different or unique set of circumstances. Each state is different and applicable laws, regulations and terminology for related subjects may vary in different jurisdictions. Considerable effort has been made to provide the reader with timely and accurate information; however there are no guarantees. Therefore, if expert assistance and advice is required, the reader should always seek the services of a competent professional.

The fastest way to find each state's foreclosure statutes, outlining the legal process, is to search online via Google or go to
http://www.prairienet.org/~scruffy/f.htm
which has every state's statute.

Here is the process followed in **California,** a non-judicial state, meaning the process does not involve a judge.

In a nutshell, the process is quite straightforward and at its shortest takes a minimum of 3 months and 21 days before the home is sold.

Thus, a homeowner may miss a payment, only one, and the lender can proceed right to the foreclosure process. In practice, of course, most lenders these days wait 3 to 6 months before beginning the process in the hope of working something out with the borrower.

Failing a short sale or some workout solution, the lender proceeds to foreclosure. This process begins by recording a Notice of Default [NOD] on the property with the County Recorder. This serves as public notice that the homeowner is delinquent in his payments. This begins the Redemption Period, lsting for 90 days, during which the homeowner can still keep his home by paying the debt and fees current.

Then, the Publication Period begins and lasts for 21 days. The default and pending sale is advertised in various printed periodicals. At the end of the period the home is sold either to anyone with the cash to pay the lender and fees or, most commonly, it reverts to the lender.

Bear in mind that the lender can stop or delay this process at any time. For instance, if a buyer offers to purchase the home at short sale, the lender usually puts the process on hold to consider the offer. If accepting the offer, the lender will eventually stop the sale.

California*
California is a non-judicial state.
Day 1 Day 90 Day 90 Day 121
Redemption Period Publication Period
Trustee's Sale

The Redemption Period lasts 90 days from the recordation of the Notice of Default . The Publication Period lasts 21 days from the end of the Redemption Period. Then comes the Trustee Sale.

Redemption Period

Once the Notice of Default records, the foreclosure time frame begins. Within 10 business days a copy of the recorded Notice of Default is sent by certified and regular mail to the borrowers at all addresses provided and any recorded special requests. Within 30 days a copy of the Notice of Default is sent by certified and regular mail to new owners and all junior lien holders to the Deed of Trust being foreclosed. A Trustee's Sale Guarantee Report is ordered from the title company providing all title information. The foreclosure remains dormant for the next 60 days unless the borrower makes contact to cure.

Publication Period

The publication period begins once the redemption period has expired. A Notice of Trustee's Sale is prepared and published in an adjudicated paper of general circulation in the city in which the property is located. The Notice of Trustee's Sale is published one time per week for three weeks, 21 days. The actual Sale is established by adding at least 20 days to the date that the Notice of Trustee's Sale was first published in the newspaper. The Notice of Trustee's Sale is posted on the property and in a public place. At least 14 days period to Sale date the Notice of Trustee's Sale must be recorded in the county in which the property is located.

Trustee's Sale

On the day that was established for sale of the property, and only after all publication period requirements have been met, the property is sold to the highest bidder for cash for the full amount of the debt plus foreclosure fee and expenses. If no one bids at the Trustee's Sale, the property automatically reverts back to the beneficiary for the debt. A Trustee's Deed Upon Sale is recorded in the county in which the property is located transferring title to the foreclosing beneficiary allowing the marketing of the property to recover their debt.

All sales under a power of sale in a deed of trust will be made between the hours of 9:00 a.m. and 5:00 p.m. on any business day, Monday through Friday, at the time specified in the Notice of Trustee Sale. The sale must be made a public auction to the highest bidder. The trustee has the right to require every bidder to show evidence of ability to pay the full bid in cash, cashier's check or certain bank checks. Each bid is by law an irrevocable offer to purchase. However, a higher bid cancels an earlier bid.

It is unlawful and a criminal offense (a fine of $10,000 or up to one year in jail) to offer anyone consideration not to bid, or to fix or restrain the bidding process in any manner. Debtors may reinstate up to five days before non-judicial foreclosure sale. Junior lien holders may no longer redeem, so they may try to protect themselves by
(1) advancing funds to bring the senior loan payments current, then foreclosing for the sums
advanced; (2) bidding at the foreclosure sale so the price will be sufficient to payoff the senior
and the junior liens; or (3) acquire the property by bidding at the foreclosure. If the debtor has a
right to redeem and does so, the junior who purchased the home must be reimbursed. Junior liens do not reattach the property if a borrower redeems a senior lien whose foreclosure extinguished the junior. This helps borrowers by

encouraging the junior to bid up to the property to fair market value at the foreclosure sale, or else lose out, giving borrowers closer to fair value at sale.

Lenders may not seek a deficiency judgment if (1) the foreclosure is non-judicial or if (2) foreclosure is on a purchase money obligation. The same rules do not apply to guarantee or later lien holders. The lenders may seize alternative collateral. If the lender forecloses by filing a lawsuit, then the lender can obtain both a foreclosure sale order and a judgment against the borrower for a deficiency after the courtordered sale, but only for the difference between the judgment and the fair value of the security.

VA Loans

An appraisal should be ordered through an authorized VA appraiser 60 days from the recording of the Notice of Default. A completed VA567 from should be sent to the local VA office with a copy of the Notice of Trustee's Sale and Trustee's Sale Guarantee once publication of the Notice of Trustee's Sale has begun. A Corporation Grant Deed should be prepared conveying title from the foreclosing beneficiary to the proper governmental agency.

FHA Loans

A Notice to Occupant of Pending Acquisition should be mailed to mortgagee with a copy of the cover letter to the local FHA office. A Corporation Grant Deed should be prepared conveying title from the foreclosing beneficiary to the proper governmental agency. If the property is occupied, an eviction process must be started to convey the title to FHA unoccupied. Once eviction is complete, Corporation Grant Deed is recorded and a title package issued to FHA for Title Approval.
Record Corporation Grant Deed and issue FHA 27011 Part A.