

MORTGAGE NEWS

Treasury Sets New Short Sales Guidelines

by David Parker

RE/MAX International recently reported that the U.S. Treasury Department's long-awaited guidelines to streamline Short Sales have finally arrived. These guidelines are expected to have a significant impact on families facing foreclosure. Guidelines address barriers that have often sidelined short sales by setting limits on the time it takes a bank to approve an offer, freeing borrowers from debt and capping claims of subordinate lenders.

Short sales are favored by real estate agents and community groups over foreclosure because they can preserve the borrower's credit rating and leave the property in better condition than when a homeowner is evicted. While primary lenders typically realize steep losses, their recovery is typically far better than under foreclosure. But short sales have been frustrating for borrowers and real estate agents, often hung up by negotiations with multiple lien holders and mortgage insurance companies. Real estate agents have complained that sales fall through as lenders bicker over the sales price, what they should receive from the proceeds, and whether the borrower will be held accountable for the debt in the future.

The Home Affordable Foreclosure Alternatives Program (HAFA), part of the Home Affordable Modification Program (HAMP), provides financial incentives and simplifies Short Sales procedures by setting limits on the time it takes lenders to respond, freeing borrowers from debt and capping claims of subordinate lenders.

The Treasury Department's announcement comes on the heels of more than a year's work by RE/MAX leadership to persuade federal lawmakers to address the need for a simpler Short Sale process.

The plan doesn't include all of the suggestions made, but this is a big step in the right direction. The new policies will make Short Sales much more attractive to real estate sellers and buyers and will also make those transactions easier to complete.

With unemployment over 10 percent and millions of adjustable-rate mortgages primed to reset next year, a "tsunami" of distressed properties could be on the horizon. The new guidelines, as well as a growing acceptance by lenders and second-lien holders, give homeowners a better chance of closing a Short Sale rather than losing their house to foreclosure.

Here are some of the program's key guidelines:

- Lenders must respond to Short Sale requests within 10 business days of receipt of the offer package.

- The seller will be released from all liability for repayment of the mortgage debt.
- Subsequently, the seller is entitled to a relocation incentive of \$1,500, which will be deducted from the gross sale proceeds at closing.
- The lender will be paid \$1,000 to cover administrative and processing costs for a Short Sale or a deed-in-lieu.
- The property must be listed with a licensed real estate professional who does regular business in the community where the property is located.
- The lender is prohibited from requiring, as a condition of approving the Short Sale, a reduction in the agreed-upon real estate commission.
- The investor will be paid a maximum of \$1,000 for allowing a total of up to \$3,000 in Short Sale proceeds to be distributed to subordinate lien holders, or for allowing payment of up to \$3,000 to subordinate lien holders.

RE/MAX leaders have been advocating Short Sale improvements for quite some time. In September, Dave Liniger, RE/MAX International Chairman and Co-Founder, met with Housing and Urban Development Secretary Shaun Donovan and other U.S. housing officials to discuss the need for prompt action. A meeting with Sen. Harry Reid (D-Nev.) also moved the process along.

For their part, RE/MAX Associates have embraced training in Short Sales and REOs. The network accounts for nearly 60 percent Certified Distressed Expert designees. That education will continue to play a vital role in order for Associates to successfully handle Short Sale transactions and establish themselves as the leading experts in their markets.

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