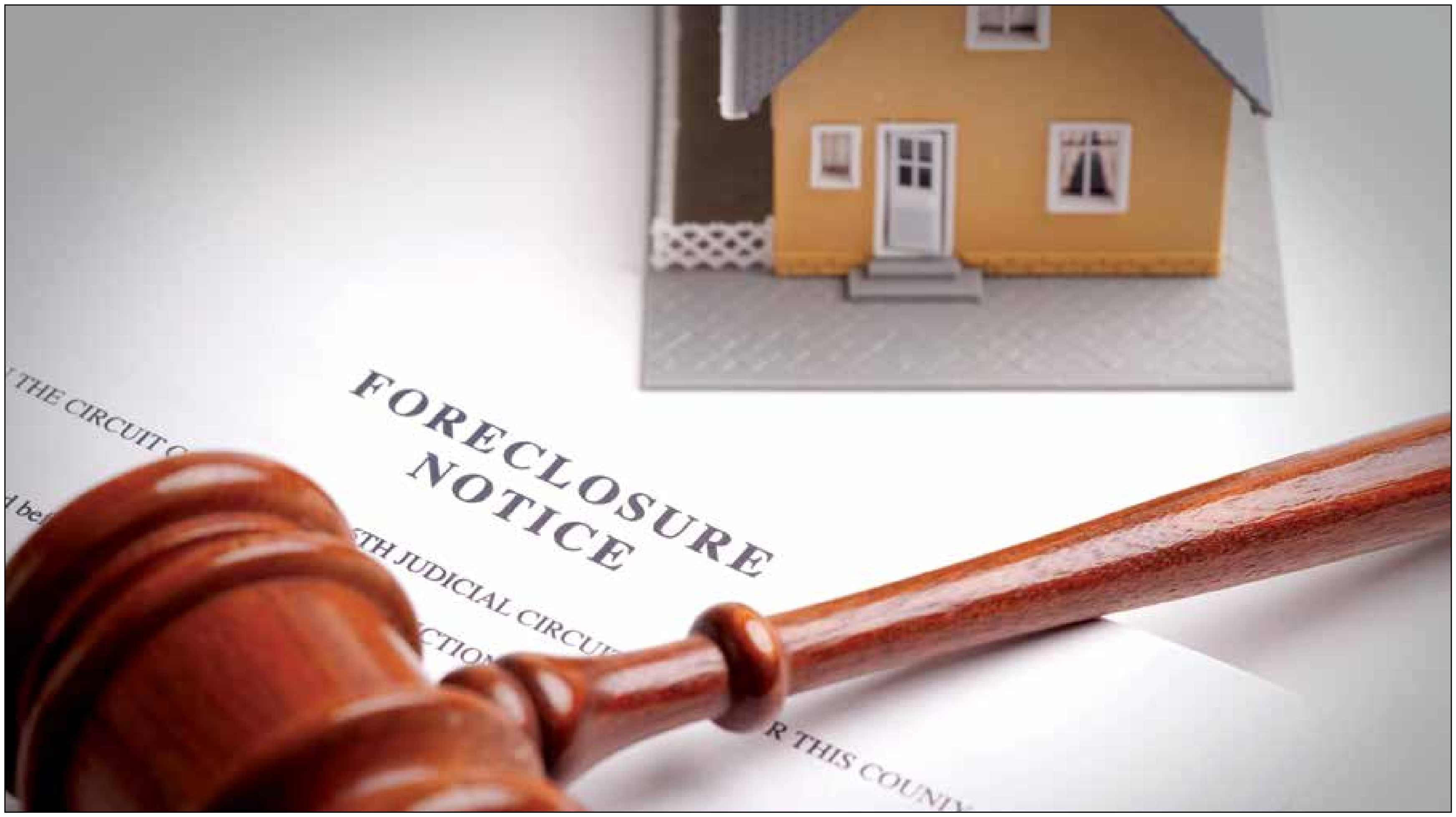
Short Sale vs. Foreclosure

By ALEX MASON | Green Shoot Media



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A short sale may help a homeowner avoid foreclosure proceedings by selling the home for less than the balance owed to the lender.

The real estate industry has faced some tough challenges over the past several years.

Home values sinking under water created a new set of homeowner concerns accompanied by new terms and vocabulary.

Many people have not yet adapted to the terminology of foreclosure versus short sale, often mixing up the two options when the mortgage can no longer be sustained.

The two terms — foreclosure and short sale — are somewhat interrelated and often confused. To set the record straight, let's look at each maneuver in a nutshell.

WHAT IS A SHORT SALE?

A short sale is a remedy to save the distressed property from a seizure by the lender. Homeowners who believe they can no longer handle their house payments or are burdened with a property due to relocation issues may elect to sell the home for less than they owe through a short sale.

The short sale is designed to move the property quickly before a Notice of Default is issued and foreclosure proceedings begin. This tactic is often the last resort before a distressed property hits the courthouse steps for auction.

Although the short sale can release a distressed borrower from the property, there is often zero profit in the sale of the home for the owner's pocket. However, the owner's credit is damaged less than a foreclosure, and he is free to walk away.

The short sale should be handled by a real estate specialist who has plenty of experience with successful short sales. Time is of the essence with a short sale to ensure the homeowner does not fall behind on the mortgage payments. A few missed payments could send the home into default, so the short sale must be smooth sailing to beat the deadlines.

The short-sale real estate agent will advertise the home as a discounted property, yet try to recover as much for the home as possible with the sale. The short sale tactic involves the bank, so each offer on the property is subject to the lender's approval.

The short-sale agent must have a strong working relationship with the lenders and be able to sell the property before the homeowner suffers financial consequences. A short sale can be tricky, so if this is the right path for you, be sure to shop wisely on who will represent you in the short sale.

WHAT IS A FORECLOSURE?

A foreclosure is the last resort for a distressed borrower who can no longer make payments on the property. Perhaps she put the home on the market as a short sale but there were no takers on the deal.

A Notice of Default will be issued to the property owner, which gives the borrower a small grace period to bring the mortgage current. If the borrower cannot make the payments, the property will be seized by the bank or private lender.

If you are struggling with your mortgage payment, you must immediately contact your lender. Many finance companies are eager to work with distressed borrowers to avoid foreclosure proceedings.

Despite popular belief, the lender does not want to take the property with a foreclosure. This process costs the lender money in the long run with insurance, taxes and the responsibility to find a new owner. They are far more inclined to sit down and negotiate to keep the current owner in the home.

To avoid foreclosure, honestly evaluate your financial status, set forth a budget, then make the necessary contacts to correct the issue. You may wish to do a short sale to quickly release the cumbersome property, seek an attorney for bankruptcy advice or work out a new payment program with your current lender.

REAL ESTATE 101

All in the Documents

Short sales and foreclosures both involve a lot of paperwork.

- A short sale is designed to move the property quickly before a Notice of Default is issued and foreclosure proceedings begin.
- In foreclosure, a Notice of Default is issued, and the property may be seized by the lender.

HOMEWISE Real Estate Tips and Advice

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HOMEWISE GLOSSARY

Default: the inability to make timely monthly mortgage payments or otherwise comply with mortgage terms. A loan is considered in default when payment has not been paid after 60 to 90 days. Once in default the lender can exercise legal rights defined in the contract to begin foreclosure proceedings

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement. Generally after fifteen days a late fee may be assessed.

SOURCE: U.S. Department of Housing and Urban Development