



FORECLOSURE OR SHORT SALE

FROM YOUR REALTOR®...

Marsia Powers
DRE License No. 01052375

Pinnacle Estate Properties Inc
17327 Ventura Blvd. #100
Encino, CA 91316-3965

Office Address:

Phn: 818.708.0484 Fax: Cell:
Email: marsia@powersandpowers.com
Web Address: www.powersandpowers.com

Homeowners facing foreclosure often wonder whether a "short sale" is a better alternative. The answer depends on who's asking. Foreclosures and short sales affect different people differently, depending on their financial situations, priorities, goals, adversity towards risks, property conditions, market conditions, and many other considerations. To help you answer that question for yourself, here are some of the major factors to consider when choosing between foreclosure and short sale.

FACTORS	FORECLOSURE	SHORT SALE
DEFINITION	If you default on your loan, foreclosure is the legal process that your lender may use to sell your property to satisfy the debt you owe.	A short sale is a sales transaction where the seller's lender voluntarily agrees to receive a loan payoff for less than what's owed.
CREDIT	Foreclosure and short sale have the same negative impact on your FICO score, according to www.myfico.com . The derogatory item stays on your credit for 7 years, but your FICO score may begin to improve after 2 years if you keep your other credit obligations in good standing. Aside from your FICO score, whether foreclosure or short sale is better for your overall credit-worthiness depends on the purpose for which you're using your credit, such as mortgage loan, auto loan, credit card, apartment rental, or job application (see right column).	A short sale may be reflected in your credit as an account that is "not paid as agreed" or settled for less, and has the same negative impact as a foreclosure on your FICO score according to www.myfico.com . However, a short sale may be better than foreclosure for obtaining a new mortgage loan under current Fannie Mae guidelines. According to Fannie Mae, only 2 years must lapse after a short sale for a borrower to show reestablished credit, whereas 5 years must lapse after foreclosure (or 3 years after foreclosure if the borrower has a hardship or other extenuating circumstance).
TAX	<p>1. <u>Cancellation of Debt</u>: Foreclosure may give rise to taxable income to you for cancellation of debt, which is roughly calculated as your loan balance minus your property's fair market value at foreclosure. Certain exceptions apply, such as bankruptcy, insolvency, forgiveness of a non-recourse loan (IRS), and a loan for purchasing or substantially improving your qualified principal residence.</p> <p>2. <u>Capital Gains</u>: Foreclosure may also give rise to taxable income for capital gains, which is roughly calculated as your loan balance (or the property's fair market value) minus your original purchase price and major improvement costs. However, you generally do not have to pay taxes on capital gains up to \$250,000 (or \$500,000 for married couples filing joint returns) if you owned and used the property as your principal residence for at least 2 of the last 5 years.</p>	<p>1. <u>Cancellation of Debt</u>: As with foreclosure, a short sale may give rise to taxable income for cancellation of debt, but the calculation is different. For a short sale, the cancellation of debt income is roughly your loan balance minus the sales price. Certain exceptions apply, such as bankruptcy, insolvency, and a loan for purchasing or substantially improving your qualified principal residence.</p> <p>2. <u>Capital Gains</u>: As with foreclosure, a short sale may give rise to taxable income for capital gains, but the calculation is different. For a short sale, the capital gains calculation is roughly your selling price minus your original purchase price and major improvement costs. As with a foreclosure, you generally do not have to pay taxes on capital gains up to \$250,000 (or \$500,000 for married couples filing joint returns) if you owned and used the property as your principal residence for at least 2 of the last 5 years.</p>

(Please see page two)

Copyright© 2010 CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.). The information contained herein is believed to be accurate as of May 24, 2010. It is intended to provide general answers to general questions and is not intended as a substitute for individual legal advice. Advice in specific situations may differ depending upon a wide variety of factors. Therefore, readers with specific legal questions should seek the advice of an attorney. Permission is granted to C.A.R. members only to reproduce this material for non-commercial purposes (personal use and to distribute to clients). C.A.R. members must reprint the material in its entirety, but may add their own names and contact information where specified.

Agent: Marsia Powers Phone: 818.708.0484 Fax: Prepared using zipForm® software
Broker: Pinnacle Estate Properties Inc 17327 Ventura Blvd #100 Encino, CA 91316

FORECLOSURE OR SHORT SALE (Cont'd)

FACTORS	FORECLOSURE	SHORT SALE
PERSONAL LIABILITY	If your loan balance is more than the foreclosure sales price, you generally will not be personally liable for the difference under certain circumstances, such as if the lender forecloses non-judicially through a trustee's sale or if you have a purchase-money, owner-occupied loan for one-to-four residential units. Certain exceptions apply, such as loan fraud, intentional property damage, certain wiped-out junior liens, and FHA and VA loans.	If your loan balance is more than the sales price of your property, whether you'll be personally liable for the difference may depend on what you negotiate with your mortgage lender. Your lender may agree to forgive you for the shortfall, refuse to forgive you for the shortfall, require you to repay the shortfall, or say nothing about the shortfall. If the lender agrees to forgive you for the shortfall, make sure to get that agreement in writing and signed by the lender.
POSSESSION	You generally have the right to stay in your home during the foreclosure process which takes a minimum of about 4 or 5 months. If you do not leave after a trustee's sale of the property, the new owner may negotiate a cash-for-keys agreement with you, commence the eviction proceedings by serving you a 3-day notice to vacate, or take some other action.	You generally have the right to stay in your home until you close escrow on a short sale transaction. You may, however, be able to negotiate with your buyer for a longer or shorter stay.
PERSONAL CONCERNS	The foreclosure process does not take much effort on your part, but the wait can be agonizing and stressful for certain people. Although non-judicial foreclosure takes a minimum of about 4 or 5 months, you generally cannot dictate how quickly the lender proceeds with each step of the foreclosure process. You may also feel uncomfortable with what you may perceive as the shame or stigma associated with foreclosure, such as when a notice of trustee's sale is posted on your property or the sheriff comes to escort you and your family out of the property.	Doing a short sale may involve a lot of time, effort, and paperwork on your part to list and market your home, to get your lender's approval, and to consummate the sale with your buyer. Yet, during this process, you generally do not know whether you will succeed in closing your short sale transaction. Despite the hard work and uncertainty, you may prefer a short sale because it allows you to take a proactive approach to finalizing this chapter of your life so you can move on to the next one as quickly as possible.
ASSISTANCE	To assist you, a foreclosure consultant as defined under Cal. Civ. Code § 2945.45 must be registered with the California Department of Justice and bonded for \$100,000. Real estate licensees are generally exempt from this requirement. To check whether someone is properly registered as a foreclosure consultant, call the California Attorney General's Office.	One big advantage of a short sale is you can hire professional real estate agent to help you through what can otherwise be a complicated and difficult process. You may check whether someone is a real estate licensee at http://www2.dre.ca.gov/PublicASP/pplinfo.asp .



Contact a Professional for Your Real Estate Needs.

Short Sales vs Foreclosures - The Real Deal

Kendra Barnett, AOL Real Estate contributor

Editor's Note: Short sales and pre-foreclosures are two home types that constitute a growing subset of bargain homes that also includes properties referred to as "distressed" and "auction" homes.

With many Americans facing the very real threat of foreclosure, many are looking for ways to avoid it. One option, and a topic that has garnered a lot of industry interest, is a real estate short sale.

Normally reserved for stocks and other finance-related transactions, short sales are becoming an increasingly popular, and common, foreclosure avoidance tactic for homeowners.

To help understand how a short sale would relate to, or differ from, a foreclosure, it may be helpful to point out that short sales can also be referred to as "pre-foreclosure sales" which, as the name implies, precedes the home being officially repossessed or foreclosed on by the lender. That is, the property is sold much earlier than the months it typically takes to reach foreclosure, allowing all parties to move on from the transaction sooner.

It should be noted that there are still negative ramifications for short sales, even if less damaging than those associated with foreclosures and/or bankruptcy. For example, a short sale homeowner's credit will still be adversely affected by settling with the lender. In fact, according to an article by Elizabeth Weintraub on About.com, the effects on credit are about the same for short sale and foreclosure and could drop a seller's overall score by as much as 200-300 points.

However, short sales do carry less negative effects than foreclosures. Short sale sellers are widely seen as less risky than foreclosed sellers. Case in point, Fannie Mae recently adjusted their guidelines to dictate only a two year waiting period for a short sale seller to buy another primary residence, while they extended the waiting period for foreclosures to five years.

At its best, a short sale can be a win-win for both parties. For the seller, a short sale provides the opportunity to avoid foreclosure and the dreaded implications that a foreclosure brings, in addition to being able to return to home ownership sooner; alternately, the lender receives most of the value of the loan sooner, and avoids incurring additional legal or carrying costs while the foreclosure process plays out, which can sometimes even take years. And, frankly, short sales are great options for savvy buyers - but these buyers need to not only be looking for a bargain, but have the time and skills to negotiate effectively as well.

The net-net of this topic – short sales do present a better option for distressed sellers than foreclosures. However, it is neither an easy or short process, and sellers should seek thorough legal and tax advice when considering this route.

Information Courtesy of

The Powers Team

17327 Ventura Blvd., #100 Encino, CA 91316-3965

Phone: 818-708-0484 Fax: 818-705-1723 email: marsia@powersandpowers.com