

# TRC White Paper: Short Sales

The term “short sale” has been very much in the news lately—particularly in those states that suffered the most serious real estate setbacks, including California, Nevada, Arizona and Florida.

What is a short sale? A real estate short sale means the lender has agreed to accept less than the total due on the outstanding mortgage.



From a transferee’s perspective, if the departure home is worth less than the mortgage balance, the transferee is faced with several unattractive options. If he has the financial wherewithal, he can make up the difference out of his pocket. Since the shortfall could involve tens or even hundreds of thousands of dollars, this is not a viable option for most transferees. The transferee could simply walk away from the property and let the lender foreclose, but he will ruin his credit for years to come, make it impossible to obtain a new mortgage and potentially make it difficult even to rent an apartment.

The “least bad” alternative is often to persuade the lender to agree to a short sale (and to work with the relocation management company’s guaranteed buyout offer). The short sale is negotiated among the buyer, seller and the mortgage lender. Not all sellers or all properties qualify for a short sale.

If a short sale is indicated, the seller should follow this process:

## *Call the lender*

This can be very time consuming as the transferee must get to the person responsible for handling short sales and who has the authority to make the decision regarding a short sale. The transferee should try to determine whether the deficit will be forgiven by the lender.

## *Submit letter of authorization*

To permit the lender to disclose personal information, the transferee will need to submit a letter with the following information:

- Name
- Date
- Property address
- Loan reference number
- The real estate agent’s name and contact information

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This letter should introduce TRC Global Solutions as the third party relocation company that will provide the transferee with a guaranteed buyout offer. The letter should give the lender permission to talk with interested parties about the sale of your home.

## *Complete a preliminary net sheet*

This is an estimated closing statement showing the sales price the transferee expects to receive and all costs associated with the sale of the property. These include commission, unpaid loan balances and outstanding dues/fees. If the bottom line shows cash to seller, the transferee may not need to pursue a short sale.

## *Craft a hardship letter*

This is a statement of facts disclosing how the transferee got into this financial bind and makes a plea to the lender to accept less than the full amount of the mortgage. (As the third party relocation company we can be of assistance by providing a bona fide, guaranteed buyout offer, helping to validate the market value of the property.)

## *Provide proof of income/assets*

The transferee should be honest about his situation. He should disclose all assets. The lender will want to know if the transferee has savings accounts, IRAs, money market accounts, stocks, bonds—basically anything of tangible value. The lender will need assurance and proof that the transferee cannot pay the full amount of the mortgage, and that there is a valid reason you are asking for acquiescence in a short sale.

## *Provide copies of bank statements to the lender*

The lender will require complete account documentation, including an explanation of any money entering or leaving the accounts.

## *Obtain a comparative market analysis*

If the transferee's situation is the result of declining property values, he should document this with a comparative market analysis conducted by the real estate agent showing similar homes, active days on market, pending sales and solds from the last six months. The transferee should present this analysis to the lender as proof that the home will not sell for enough to cover the mortgage balance. (Further support of valuation will come from the relocation provider's guaranteed buyout offer, arrived at through independent appraisals).

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## *Submit the purchase agreement to the lender*

When the transferee has received an offer from a prospective buyer (or the relocation management company's buyout offer), it's presented to the lender for consideration. Each situation is unique, but lenders are often disposed to let the relocation provider assume the burden of the inventory property. The lender cuts its losses, and the relocation company assumes responsibility for marketing, maintenance and resale.

The short sale process will have an adverse effect on the transferee's credit, but not to the extent a foreclosure would. Transferees can ask the lender not to report the short sale to credit bureaus, but this is strictly up to the lender.

One last note: if the lender does forgive the deficit between the mortgage balance and the sale (or acquisition) price, this is considered income by the IRS and must be reported by the transferee.

## *About TRC Global Solutions*

TRC Global Solutions is a leading employee relocation firm. Since 1987, TRC has delivered creative, cost-effective relocation and international assignment services across the U.S. and in 150+ countries worldwide. As an independent company, TRC is free from corporate bureaucracy, preconceived notions and conflicts of interest.

TRC helps clients achieve their business objectives by ensuring they have the *right* people in the *right* place at the *right* time, controlling costs and mitigating risks. TRC partners with its clients to develop a competitive, best-practice relocation program, drawing from a comprehensive range of relocation services, including US home selling, home finding and consulting services and complete international relocation services. TRC's eclectic client base represents a wide variety of products and services and ranges from smaller, start-up firms to Global 1000 companies.

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**Expectations: Exceeded™**

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