THINGS TO CONSIDER IF YOU ARE SELLING YOUR HOUSE

SUMMER 2012 EDITION

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SHOULD I WAIT TO SELL MY HOUSE?

There have been more and more reports showing that the housing market is beginning to recover. This has caused angst among some homeowners who are considering whether or not to sell their house in the next several months. With the market showing signs of life, the question becomes should they wait to sell because prices may be about to increase.

The data proves that sales are increasing nicely. However, there is no consensus on home prices yet. At the National Association of Real Estate Editors conference in Denver at the end of June, Lawrence Yun, Chief Economist of the National Association of Realtors (NAR) said:

"This time next year, there could be a 10% price appreciation. I would not be surprised to see that."

During the same week, Morgan Stanley came out with a housing report that stated where they believed housing values were headed over the next eighteen months:

"We estimate a drop of 5-10% more."

Which direction are prices headed? As we previously stated, there are opinions on both ends of the argument.

However, if we look at the **Home Expectation Survey**, which asks a distinguished panel of over 100 economists, investment strategists, and housing market experts to give their 5-year expectations for future home prices in the United States, we see the average cumulative appreciation expected by the end of next year (2013) is only **.9%**.

Should you sell now or wait? Does it make sense to delay your move for 18 months in order to get less than a 1% increase in your selling price? Only you can answer that question.

HOME PRICES:
IT'S ABOUT SUPPLY & DEMAND

The real estate market continues to heat up this summer. Will this increase in demand equate to an increase in home prices? That depends. Remember, the price of any item is determined by the **supply** of and **demand** for that item at any point in time. Let's look at the facts as reported by the **National Association of Realtors** (NAR) in this month's **Existing Home Sales Report**:

- Demand has strengthened, showing a **10%** increase over the same month last year.
- The supply of homes for sale is down **20.6%** from the same time last year.

Because supply is down and demand is up, many believe prices should begin to increase as we finish out 2012 and head into 2013. In some markets, this analysis is correct. However, there are certain states that still need to clear through a backlog of foreclosed properties which were delayed by the court procedures in those states. The **National Mortgage Settlement** gave the banks a clear path for releasing these distressed properties. Therefore, in several states, there will be a new supply of discounted inventory coming to market over the next six months. Whether that increase in supply will be fully offset by the increase in demand is still unknown. If not, home prices in those markets will still be under downward pressure.

NEW FORECLOSURE WAVE: WHAT WILL BE THE IMPACT?

Foreclosures will significantly increase this summer as a result of **The National Mortgage Settlement**. Recently, both Reuters and CNNMoney posted headlines proclaiming this:

CNNMoney - "Americans brace for next foreclosure wave."
Reuters - "Flood of foreclosures to hit the housing market."

However, this increase in distressed properties will have a much different impact on the housing market than previous increases for **three reasons**.

1. Demand Will Absorb Much of the Increase in Supply

The last wave of foreclosures entered the market as both consumer confidence and demand for housing was on the decline. That created an overhang of discounted properties that pushed down the prices on non-distressed homes. This new increase in foreclosures is hitting a different type of real estate market. Consumer confidence is stabilizing and the demand for housing is increasing. The impact on prices will be much less dramatic in most markets than it has been in the past.

2. Many Banks Are Doing Necessary Repairs and Renovations

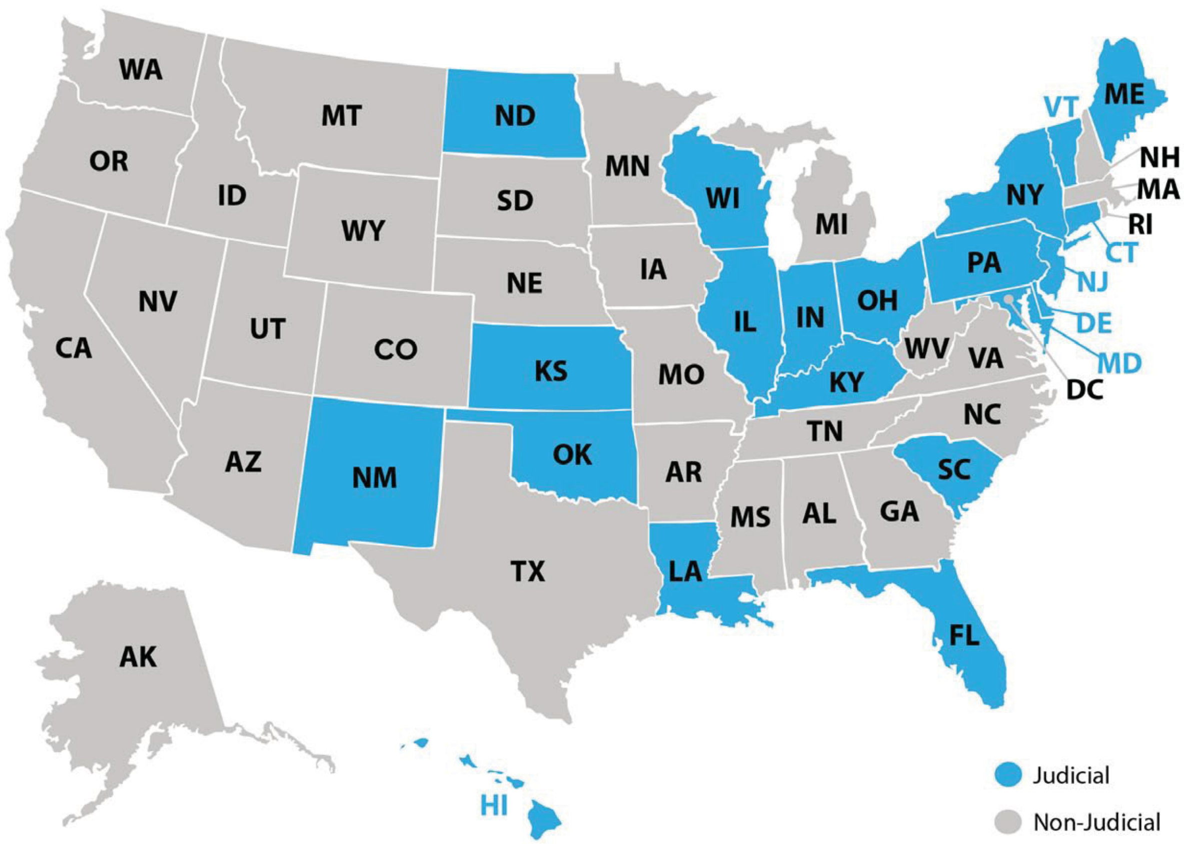
Historically, the typical foreclosure has sold at a discount of 25-30% compared to non-distressed properties. The banks are finally realizing that they may soon own one or more of homes in any neighborhood. For that reason, we are beginning to see banks do the necessary repairs and renovations in order to garner a price closer to the value of non-distressed properties in the marketplace thereby lessening the impact on the value of surrounding homes.

3. Different Regions Will Bear the Brunt

Originally, many thought that the foreclosure fiasco was confined to the four 'sand' states (CA, AZ, NV and FL). We now realize that cities like Chicago and Atlanta, along with many others, have also faced the burden of falling prices because of an increase in distressed properties.

This next '*flood of foreclosures*' will have the largest impact in the judicial states that impeded the foreclosure process over the last few years such as New York, New Jersey and Connecticut. California, Nevada and Arizona will be impacted in a much less dramatic way than in the past.

JUDICIAL & NON-JUDICIAL STATES



SHORT SALE VS FORECLOSURE: 10 COMMON MYTHS BUSTED

A short sale is when a bank agrees to accept less than the total amount owed on a mortgage to avoid having to foreclose on the property. This is not a new practice; banks have been doing short sales for years. Only recently, due to the current state of the housing market and economy, has this process become a part of the public consciousness.

To be eligible for a short sale you first have to qualify!

To qualify for a short sale:

- Your house must be worth less than you owe on it.
- You must be able to prove that you are the victim of a true financial hardship, such as a decrease in wages, job loss, or medical condition that has altered your ability to make the same income as when the loan was originated. Divorce, estate situations, etc…also qualify.

Now that you have a basic understanding of what a short sale is, there are some huge misconceptions when it comes to a short sale vs. a foreclosure. We take the most common myths surrounding both short sales and foreclosures and give a brief explanation. LET'S BUST SOME MYTHS!!

1. **If you let your home go to foreclosure you are done with the situation and you can walk away with a clean slate.**

The reality is that this couldn't be any farther from the truth in most situations. You could end up with an IRS tax liability and still owing the bank money. Please keep in mind that if your property does go into foreclosure you may be liable for the difference of what is owed on the property versus what is sells for at auction, in the form of a deficiency balance! Please note this is state specific and in most states you will be liable for the shortfall, but in some states the bank may not always be able to pursue the debt. Check your state law as it varies widely from state to state.

Here is an example of how a deficiency balance works:

If you owe $200,000 on the property and it sells at auction for $150,000, you could be liable for the $50,000 difference if your state law allows it.

Not only could you be liable for the difference to the bank, but in some situations you could also be liable to the IRS! Although there are exemptions (mostly for principle residences) under the **Mortgage Debt Forgiveness Act**, there are times when you could be taxed on both a short sale and a foreclosure, even in a principle residence situation. Since the tax code on this is a little complicated. We advise always talking to a CPA when in this situation as you are weighing your options. Hard to believe? Well, believe it or not, the IRS counts the difference between the sale and the charged off debt as a "gain" on your taxes. That's right-you lost money and it's counted as a gain! Banks and the IRS can go as far as attaching your wages. Not to mention if you let your home go to foreclosure you will have that on your credit, as well.

Guess What? A short sale can alleviate your liability to the bank, in most situations. There are also exceptions to this, but in most cases banks are releasing homeowners from the deficiency balance on a short sale.

2. **There are no options to avoid foreclosure.**

Now more than ever, there are options to avoid foreclosure. Besides a short sale, loan modifications along with deed in lieu are also examples of the many options. In most cases (but not all) a short sale is the best option. Either way, there are more options today than there have ever been to avoid foreclosure.

3. Banks do not want to participate in a short sale, or, it is too hard to qualify for a short sale.

Banks would rather perform a short sale than a foreclosure any day. A foreclosure takes a long time and creates a huge expense for the banks; a short sale saves both time and money. Banks have more foreclosure inventory than ever before, and certainly do not want any more. Banks more than ever welcome short sales. Qualifying for a short sale is easier than you think, you need to have a true financial hardship, or a change in your finances and your house has to be worth less than what you owe on it. Not only do consumers, but banks also now have government incentive to participate in short sales.

4. Short sales are not that common.

At this present time, short sales range from 10-50 % of sales in various markets and it is predicted that in 2012 we will have more short sales than any other year, to date. Due to economic changes in the last few years, this is something that is affecting millions of Americans. Short sales are in every market, and are not just limited to any particular income class. This has affected everyone from all facets of life. A short sale should be looked at as a helpful tool, not a negative stigma. That is why the government is offering programs that actually pay consumers to participate in short sales. It is not just affecting one community; it is affecting communities and consumers across the nation.

5. The short sale process is too difficult and they often get denied.

Though the short sale process is time consuming; it is not as difficult as the media would have you believe. The problem is that most short sales are denied because of a misunderstanding of the process. It is true that if the short sale process is not followed correctly there is a good chance of getting denied. An experienced agent knows how to avoid this. Short sales require a lot of experience, and a special skill set. If you are looking to go the option of a short sale make sure your agent is skilled and experienced in this area.

6. Short sales will cost me money out of pocket.

A short sale should not cost you any out of pocket money. In fact, you could get between $3000-up to $30,000 to participate in a short sale. In many ways, a short sale may put you in a better financial position than prior to the short sale. Almost every short sale program now has some type of financial incentive for the home owner, as long as it is a principle residence, and we are even seeing relocation money being paid on some investment/second homes. As a seller of a property you should never have to pay for any short sale cost upfront to any professional service. Realtors charge a commission that is paid for by the bank. In most communities there are also non-profits and HUD counselors who can help you with foreclosure prevention options for free. The only potential cost you could incur is if the bank would not release you from a deficiency balance in the short sale, which is happening less and less now.

7. If I am behind on my payments, I can perform a short sale any time.

The farther you get behind on your payments, the harder it is to get a short sale approved. The closer a property gets to a foreclosure the harder it is to convince the bank to perform a short sale. As they get closer to a foreclosure sale more money is spent, thus deterring them from doing a short sale. If you think you need to perform a short sale, time is of the essence; the sooner you start the process, the better. Waiting too long can trigger the ramifications of a foreclosure, losing the ability to do a short sale as a viable option.

8. I have already been sent a foreclosure notice so I can't perform a short sale.

For the most part just because you received a foreclosure notice or notice of default it does not mean that you do not have time to perform a short sale. The timeline and specifics do vary from state to state, but we have seen banks postpone a foreclosure to work a short sale option as close as 30 days prior to the scheduled foreclosure auction, but the longer you wait the less chance you have. If you have received a legal foreclosure notice, please reach out to a professional right away. The longer you wait, and the closer you get to foreclosure, the fewer options you have. If you have received a notice to foreclose this means the bank is filing paperwork and starting the process to take legal action to repossess the house. You still have time at this point to prevent foreclosure, but do not hesitate! The closer you get to the foreclosure date the harder it becomes to negotiate with the bank for whichever option you choose.

9. I was denied for a loan modification, so I know I will get denied for a short sale.

Short sales and loan modifications are handled by two separate departments at the bank. These processes are totally different in approval and denial. If you got denied for a modification you can still apply for a short sale; in some cases you can get a short sale approved faster than a loan modification, as some loan modifications are denied because they cannot reduce the loan low enough based on the consumers income.

10. If I go through a short sale I cannot buy another house for a long time.

The time to buy another house depends on your entire credit picture and can vary from 12-24 months. There are even a few FHA programs that allow for a purchase sooner than that.

These are just a few of the common myths surrounding short sales and foreclosure. With the options available today, no homeowner should ever have to go through foreclosure, and hopefully this information can help a few more homeowners think twice before walking away from their home not realizing the possible long term ramifications a foreclosure can have.