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# White Paper

## Avoiding Foreclosure

### The Art of a Successful Short Sale

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#### Abstract:

I'm going to show you how to avoid the foreclosure process and stop bankruptcy by using the short sale, a means of protecting your credit and settling debt, with the cooperation of the bank. Of course, not every homeowner will qualify for a short sale. An agent with CDPE credentials is your best source to establish qualification.

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#### Situation:

You feel that you may lose your home. The financial pressures are overwhelming and you hope for a miracle. People all over America are feeling the same pinch and so are the banks because the banks do not want to be left holding your property. We call property such as this, distressed property although the distress is suffered by you, the homeowner.

Here are specific conditions that determine if you own distressed property:

- You are facing pre-foreclosure
  - You are behind on your mortgage payments, or
  - You are going to be behind on your mortgage payments
  - You have already received a default notice
  - You bought your home when the market was high and need to sell but that will cost you thousands in cash and you do not have the funds
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### 3 Mistakes Made by Property Owners:

This situation did not happen overnight and you want to blame "the economy" or professionals for leading you into this disaster. Hopefully, things will iron themselves out, you think. Of course, this line of thinking is not helpful but you keep thinking that some miracle will happen. I can assure you that a miracle is unlikely.

You feel that something is wrong yet you delay speaking to your bank or others because the problem may just go away. It won't.

Maybe someone on their deathbed is leaving you lots of money. Perhaps, but the problem now is more about time than money

Just wait it out and see what happens? What will happen if you leave action to others is very specific: You lose your home, and significantly reduce your chances for future success. The chart below compares foreclosure with Short Sale. Take a look.



## FORECLOSURE VS. SHORT SALE

### Homeowner Consequences

Issue	Foreclosure	Successful Short Sale
Future Fannie Mae Loan – Primary Residence <small>(effective May 21, 2008)</small>	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of <b>5 years</b> .	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed mortgage after only <b>2 years</b> .
Future Fannie Mae Loan – Non Primary <small>(effective May 21, 2008)</small>	An Investor who allows a property to go to Foreclosure is ineligible for a Fannie Mae backed investment mortgage for a period of <b>7 years</b> .	An investor who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed investment mortgage after only <b>2 years</b> .
Future Loan with any Mortgage Company	On any future 1003 application, a prospective borrower will have to answer <b>YES</b> to question C in Section VIII of the standard 1003 that asks "Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?" this will affect future rates.	There is no similar declaration or question regarding a short sale.
Credit Score	Score may be lowered anywhere from <b>250 to over 300</b> points. Typically will affect score for over <b>3 years</b> .	Only late payments on mortgage will show and after sale mortgage will be reported as paid or negotiated. This will lower the score as little as <b>50 points</b> if all other payments are being made. A short sale's affect can be a brief as <b>12 to 18 months</b> .
Credit History	Foreclosure will remain as a public record on a person's credit history for <b>10 years or more</b> .	Short sale is <b>not reported on a credit history</b> . There is no specific reporting item for 'short sale'. The loan is typically reported 'paid in full, settled'.
Security Clearances	Foreclosure is the <b>most challenging issue against a security clearance</b> outside of a conviction of a serious misdemeanor or felony. If a client has a foreclosure and is a police officer, in the military, in the CIA, Security, or any other position that requires a security clearance in almost all cases clearance will be <b>revoked and position will be terminated</b> .	A Short Sale on its own <b>does not challenge most security clearances</b> .
Current Employment	Employers have the right and are actively checking the credit regularly of all employees who are in sensitive positions. A foreclosure in many cases is ground for immediate <b>reassignment or termination</b> .	A short sale is not reported on a credit report and is therefore <b>not a challenge to employment</b> .
Future Employment	Many employers are requiring credit checks on all job applicants. A foreclosure is one of the most detrimental credit items an applicant can have and in <b>most cases will challenge employment</b> .	A short sale is not reported on a credit report and is therefore <b>not a challenge to employment</b> .
Deficiency Judgment	In <b>100% of foreclosures</b> (except in those states where there is no deficiency) the bank has the right to pursue a deficiency judgment.	In some successful short sales it is possible to convince the lender to <b>give up the right to pursuit a deficiency judgment</b> against the homeowner.
Deficiency Judgment (amount)	In a foreclosure the home will have to go through an REO process if it does not sell at auction. In most cases this will result in a lower sales price and longer time to sale in a declining market. This will result in a higher possible <b>deficiency judgment</b> .	In a properly managed short sale the home is sold at a price that should be close to market value and in almost all cases will be better than an REO sale resulting in a <b>lower deficiency</b> .

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**After reading the chart above, is there any doubt about the value of avoiding Foreclosure in favor of a successful short sale? A short sale is a foreclosure fix.**

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## 5 Mistakes Made by Unqualified Agents:

Agents untrained in the new skills for short sales will make at least one of these mistakes. That can cost you dearly: Your home simply will not close and you will be forced into foreclosure.

**Mistake 1.** Not knowing your options. It takes training and experience to understand exactly what your options are.

**Mistake 2.** Not understanding the process. Short sales do not happen overnight. Understanding exactly what is happening will put the trained agent in the driver's seat making your life less stressful.

**Mistake 3.** Not submitting "the package" correctly. The required package of forms and information must be submitted perfectly for the bank to consider action or they simply won't process it and may not even advise you of why.

**Mistake 4.** Not understanding the BPO. This is crucial. The BPO is the lender's way of determining if your offer is fair for them. When not done correctly your offer to the lender will be rejected.

**Mistake 5.** Giving up too early. Without understanding the process, a typical agent will just give up too early and possibly put you into foreclosure.

**Agents with the CDPE credential are trained to avoid all these mistakes. Stick with them.**

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## What is a Short Sale?:

Short sales allow the cash-strapped seller to repay the mortgage at the price that the home sells for, even though that price is **lower** than what is owed on the property.

Why would the bank accept this loss? Simple: They do not want to own the property but would rather settle today. And **the bank will also pay for the entire transaction.**

Every day, more lenders are willing to short sales because they are less costly than foreclosures especially as property values are decreasing. Yes, property values in all price ranges are decreasing in: Narragansett, South Kingstown, North Kingstown, Exeter, Hope Valley, Hopkinton, East Greenwich, Richmond and Westerly, Rhode Island.

With the help of your trained professional you will be successful in completing your short sale, getting the bank off your back and improve the chances of purchasing a home once again within two years.

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## How Do I Start the Process of a Short Sale?

Short sales are becoming an important part of the real estate landscape in America today. To be sure that you are dealing with someone that is specifically trained in the process, look for the "CDPE" designation after the Realtor's name. This stands for, Certified Distressed Property Expert. Each candidate for the rating is required to pass a rigorous exam and keep up with changes in this fast-changing and complex environment.

The short sale process is not a simple one. You should have full confidence in the trained professional you choose to help you through the entire process.

**Remember: Time is of the Essence. You must act now. Please do not wait another day.**

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