



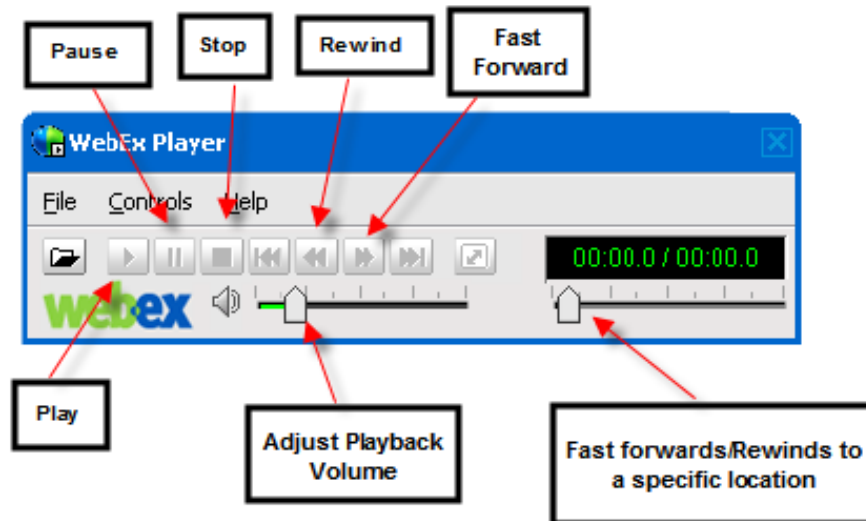
Introduction to Short Sales for the Real Estate Professional

2008



Tools and Tips

- ✓ Close all other applications to enhance your workstation's performance.
- ✓ Maximize the window used for viewing this recording.
- ✓ For technical Support, call (866) 229-3239



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www.freddiemac.com/learn

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Objectives

We want to discuss:

- **Our mission to homeowners and the neighborhoods in which they live**
- **Background and key statistics on delinquencies and workouts**
- **Real Estate Professional's perspective on current environment**
- **Retention and Liquidation Workout Options**
- **Short sales**



Mission

Freddie Mac is dedicated to:

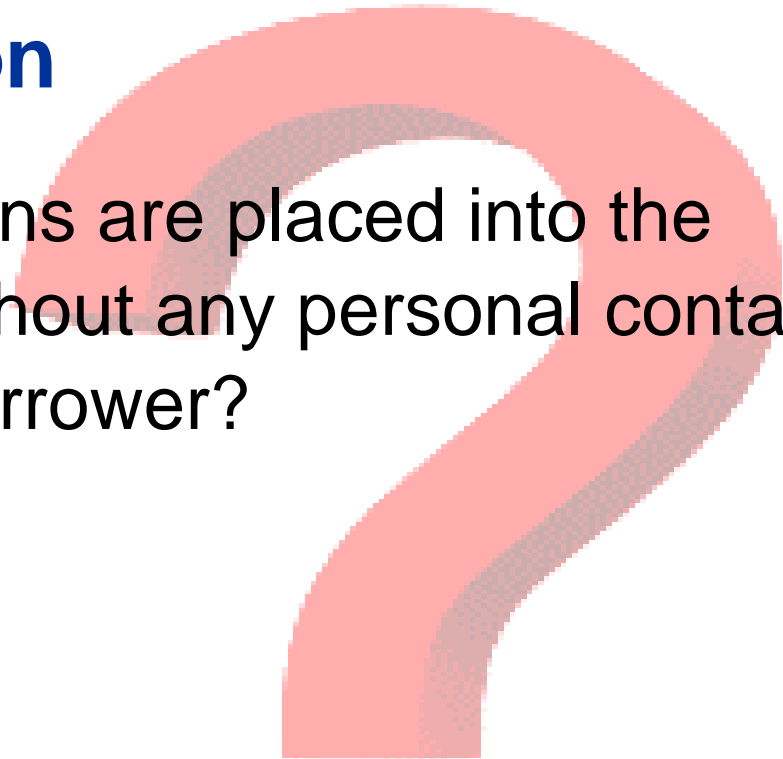
- Supporting its servicers' early intervention efforts to help more borrowers stay in homes they can afford and want to keep
- Avoiding foreclosure when homeownership retention is not possible
- Reducing credit losses while maintaining neighborhood values
- Reducing the percentage of borrowers who go to foreclosure without ever making contact with their servicer



No Contact question

What percentage of loans are placed into the foreclosure process without any personal contact being made with the borrower?

- a) 5%
- b) 6%
- c) 10%
- d) 50%

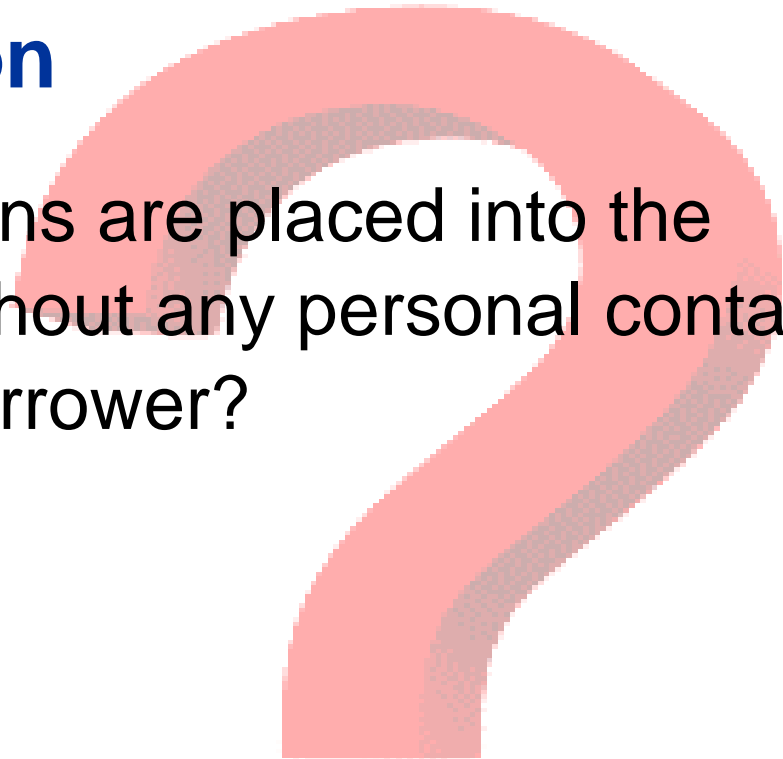




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Background

- Loan modifications have been the workout of choice for the last several years
- As property values decrease, there will likely be an increase in the number of short sales which will keep REO inventories down and preserve neighborhoods



Background

- It's becoming more difficult to negotiate short sales due to the frequency and size of junior liens
- Many real estate professionals are new to the short sale experience
- As short sales increase, the default servicing industry must re-develop relationships with all parties



Key Statistics

Delinquent Loan Inventory

- 30 days delinquent at record number
- 90 days or greater continue to grow
- Foreclosure sales at all time high



Environment

- House prices/valuation falling in many areas of the US
- Housing stock with high inventory
- Tighter Credit Market makes it harder to finance



Key Statistics

Data

- Completing high number of workouts a year
- 75% of Loan Modifications 'cure' for good
- 70% of late stage repayment plans fail versus 40% of early stage
- Servicers report that less than a 50% contact rate with borrowers that went to foreclosure sale
- Roper survey showed the majority of borrowers do not contact their Servicers, but are willing to talk to a financial counselor.





Workout Options



Retention:

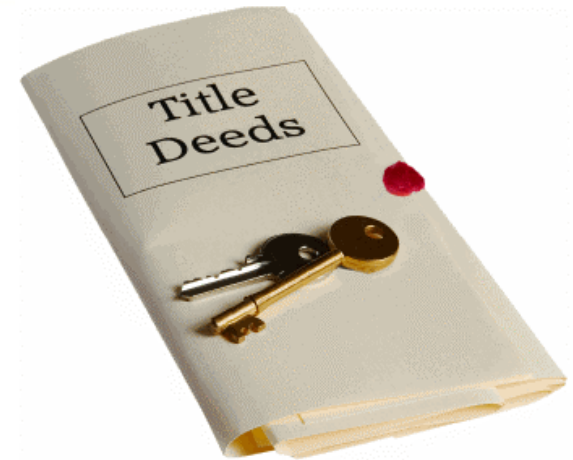
- Full or partial reinstatement
- Short-term or long-term forbearance
- Repayment plan
- Loan modification
- FHA partial claim / MI claim advance



Workout Options

Liquidation:

- Full payoff
- Make whole preforeclosure sale
- Short sale
- Deed in lieu of foreclosure
- Delinquent loan assumption





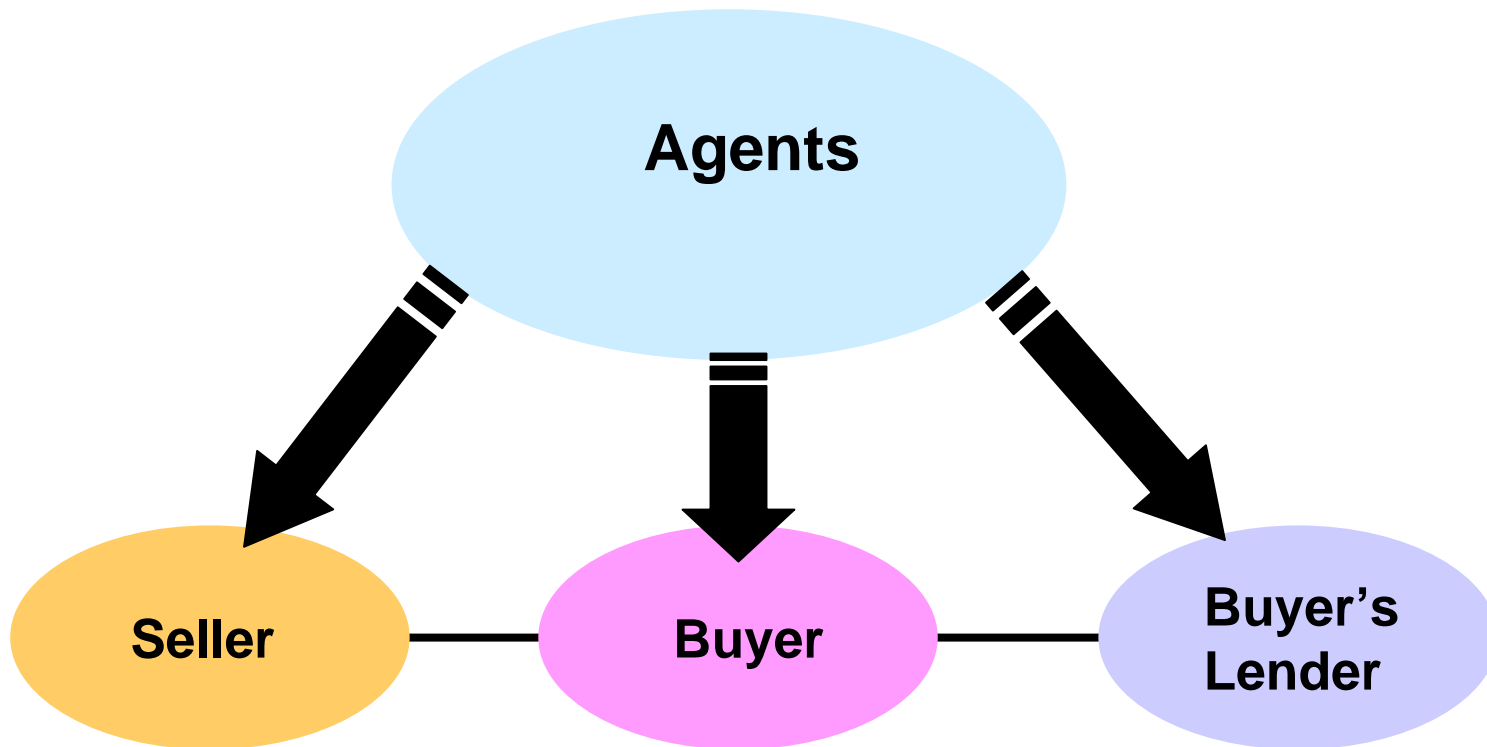
What Is a Short Sale?

A short sale occurs when the net proceeds from the sale of a property are insufficient to pay off the first lien

Property value -	\$150,000	
Total amount due on first lien	\$178,000	
Sales price -	\$148,000	(99% of value)
6% Commission and closing costs	(\$ 13,000)	(9% of sales price)
Less funds from homeowner for cc	\$ 1,000	
Payment to \$20K lienholder	(\$ 2,000)	
Net proceeds -	\$134,000	(90% of value)
Shortage/loss -	(\$44,000)	
20% MI Claim (100% of claim)	\$35,600	
Shortage/loss	(\$ 8,400)	



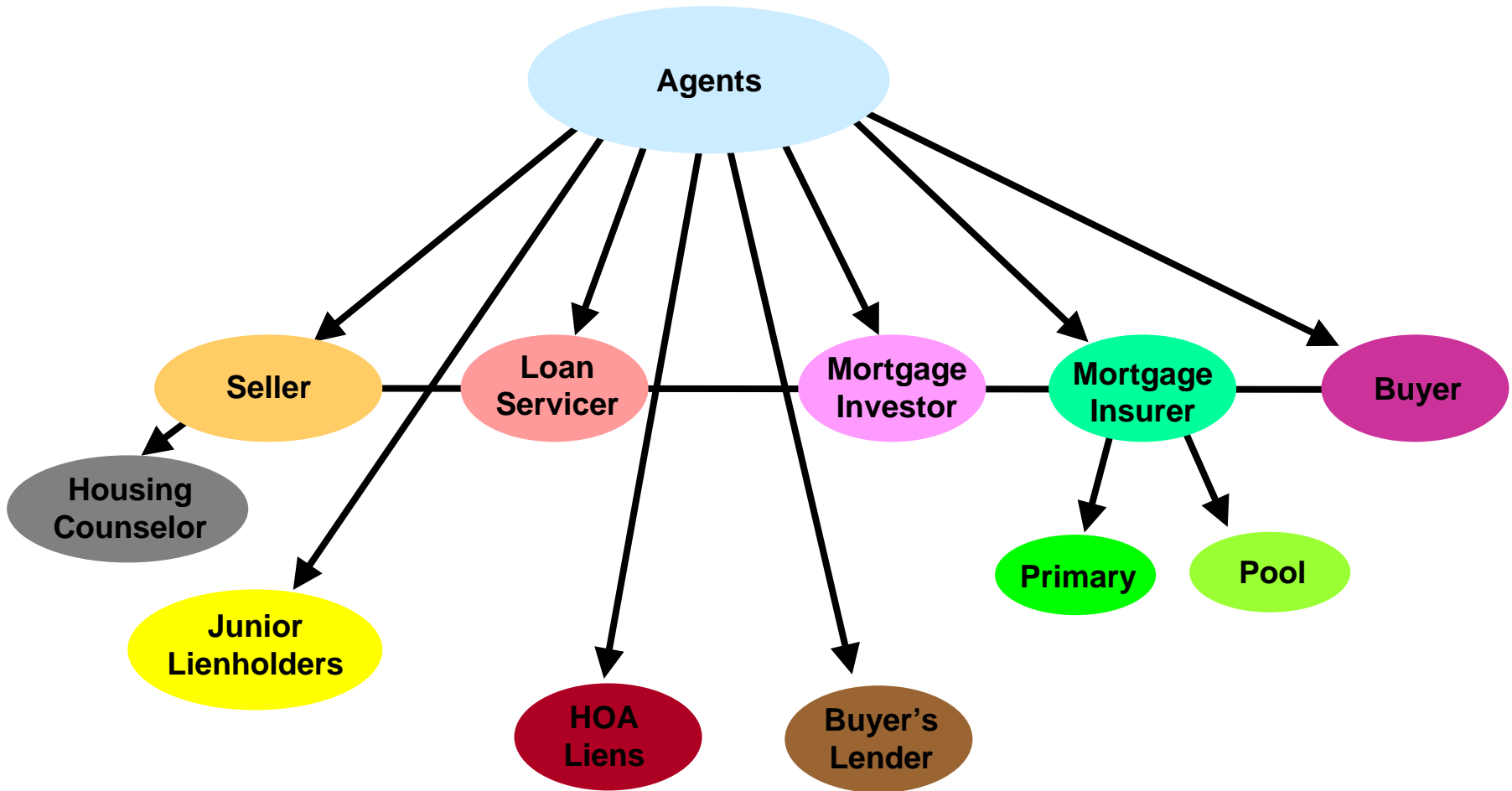
Parties in Typical Real Estate Transactions



Source – Effective Short Sale Workouts, Genworth Financial, Inc.



Parties in a Short Sale



Source – Effective Short Sale Workouts, Genworth Financial, Inc



Short Sale Process



- Short sale closes
- Seller contributes to minimize the loss based on ability
- Seller avoids foreclosure
- The investor and the MI company minimize losses
- Real Estate Professional closes an additional sale
- Neighborhood avoids the stigma of foreclosure

Source – “Effective Short Sale Workouts” Genworth Financial, Inc



Who Benefits from a Short Sale?



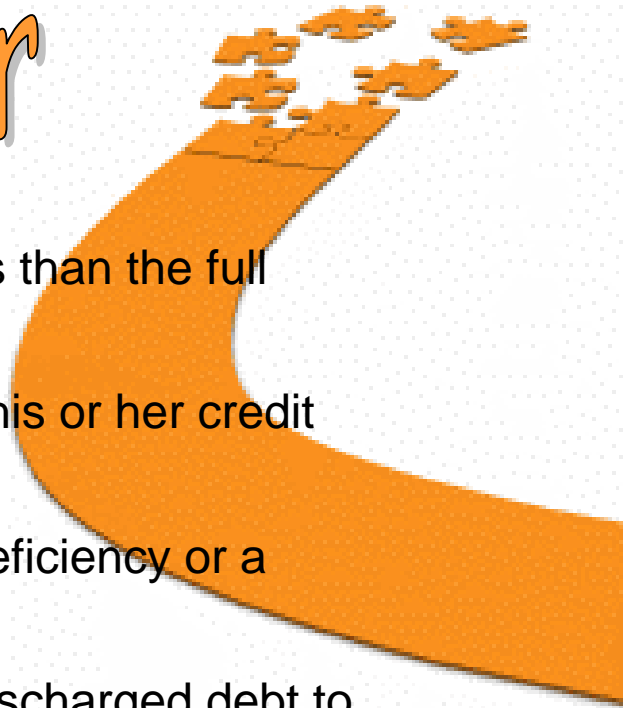
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



Who Benefits From a Short Sale?

Homeowner

- Satisfies the debt for less than the full amount
- Avoids a foreclosure on his or her credit record
- Avoids the pursuit of a deficiency or a deficiency judgment
- May avoid reporting of discharged debt to the IRS



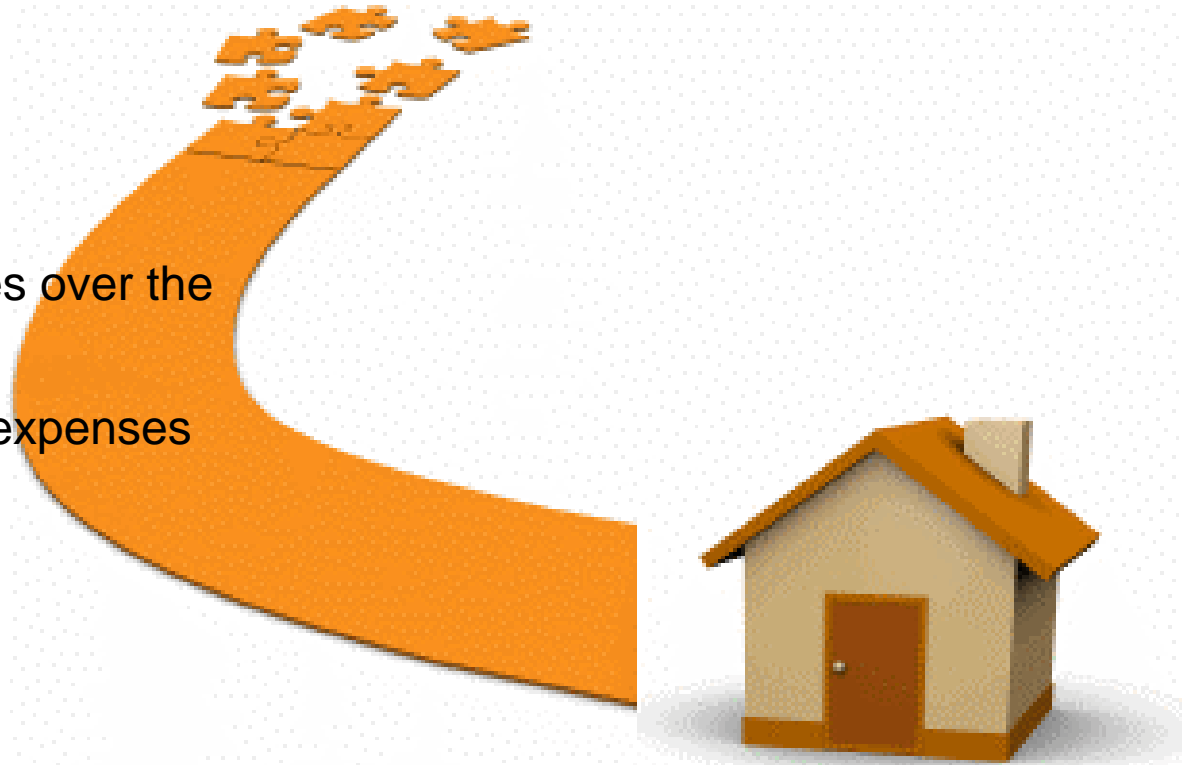
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



Who Benefits From a Short Sale?

Investor

- Potentially reduces losses over the insured amount
- Avoids an REO and the expenses incurred



Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



Who Benefits From a Short Sale?

Real Estate Professional

- Enhances relationships with buyers and sellers
- Increases Listings
- Increases Sales



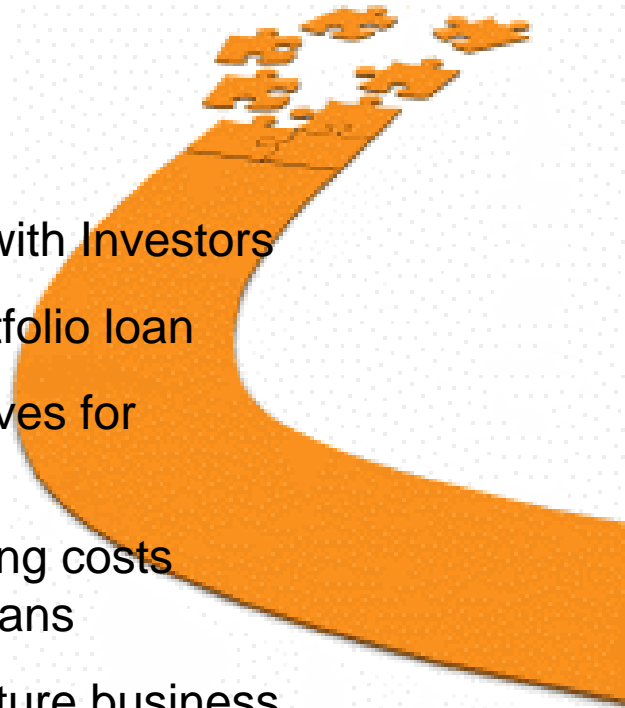
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



Who Benefits From a Short Sale?

Servicer

- Enhances relationships with Investors
- Avoids an REO on a portfolio loan
- Potential investor incentives for completed Short Sales
- Avoids expensive servicing costs incurred on delinquent loans
- Enhances goodwill for future business



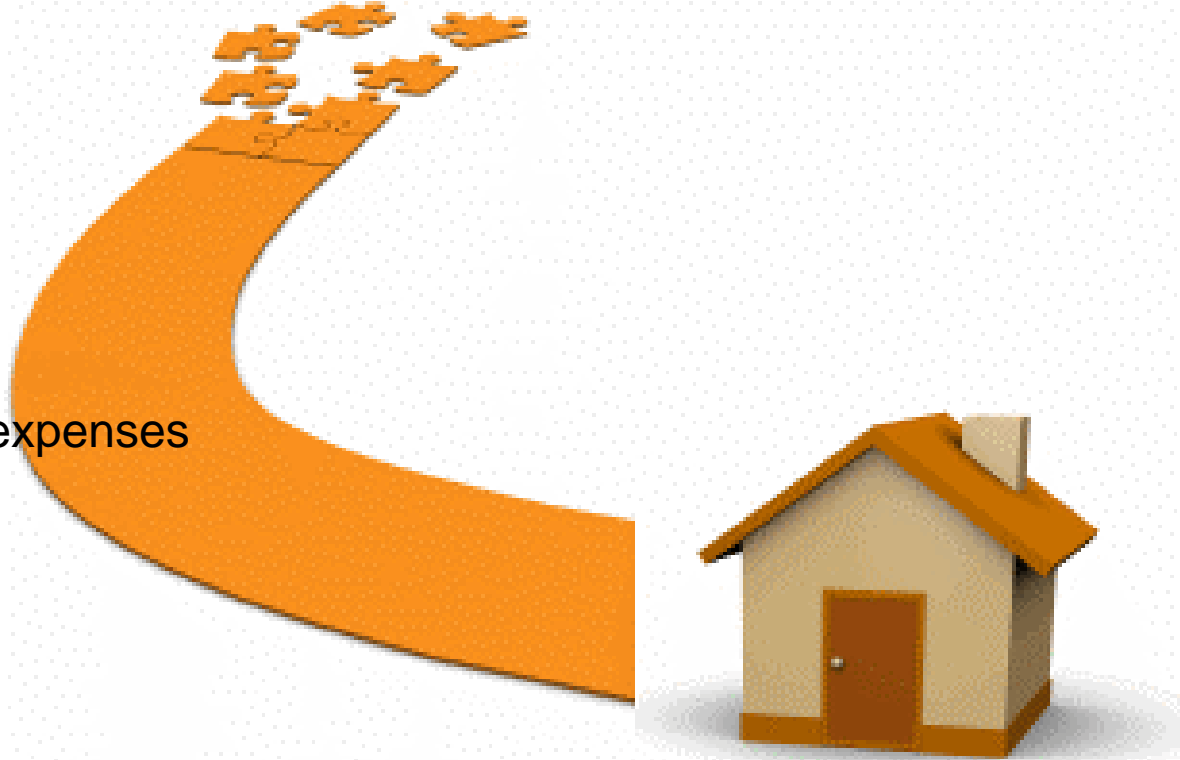
Source – “Effective Short Sale Workouts” – Genworth Financial, Inc



Who Benefits From a Short Sale?

MI Company

- Reduces claim losses
- Avoids an REO and the expenses incurred

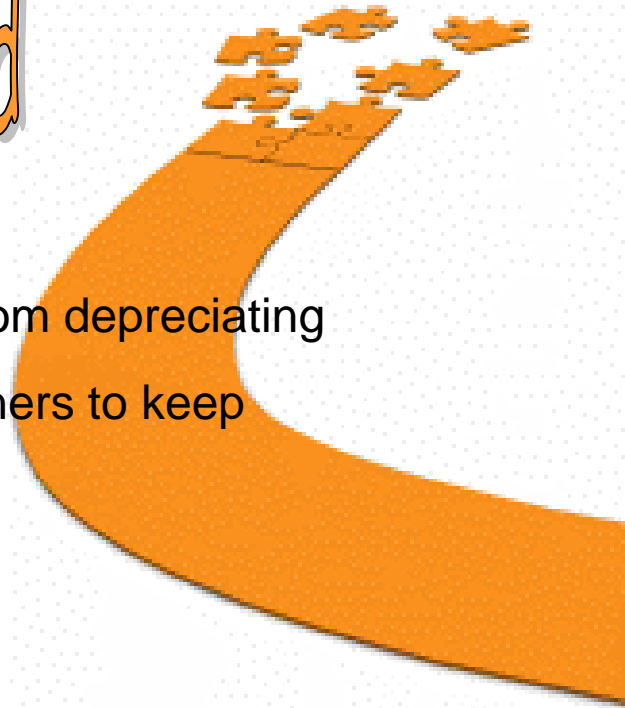




Who Benefits From a Short Sale?

Neighborhood

- Keeps housing values from depreciating
- Allows existing homeowners to keep refinance efforts.

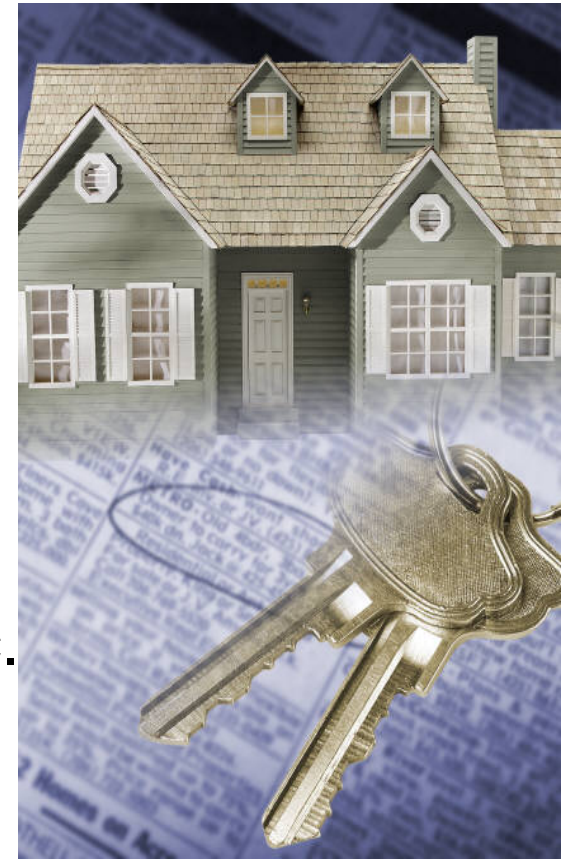




Short Sale Preparation

Pre-listing interview with homeowner/ seller

- Does homeowner really want/need to sell?
- Discuss Other Workout Options
- Obtain payoff statement
- Determine all contingencies at time of listing (subject to investor approval, etc.)
- Advise the seller that their financial participation in the sale is requested





Short Sale Preparation

- Time is of the essence
- Start with first lien
- Communicate with junior lien holder(s) and know their payoff requirements
- What is required by the seller's servicer (loss mitigation department)
 - ✓ *See workout documentation*





Base Documents for a Short Sale

General workout documentation

- Hardship letter
- Seller's financial statement (BFS 1126)
- Recent pay stub or P&L/tax return if self employed
- Complete sales contract signed by all parties
- Estimated seller's closing costs or estimated HUD-1
- Buyer pre-approval letter
- Bank Statements (not required but helpful)
- Credit Report



Short Sale Requirements

- Interior broker's price opinion (BPO) with the 90-day "as is" marketing timeframe
 - ✓ Sale is always "as is"
 - ✓ Will accept more recent comps to support current value
- **Net proceeds required**
 - ✓ Percentage of interior BPO value
 - ✓ Closing costs and commissions
 - ✓ Includes any payment to junior lienholders
- **Seller's financial participation in the transaction based on ability**



Short Sale Hurdles

- Inform seller of financial participation in the usual seller's closing costs
- Have better or recent comps available
- Get buyers pre-approved through reputable lenders
- Must be arms length transaction – notarized affidavit if unclear



Short Sale Hurdles

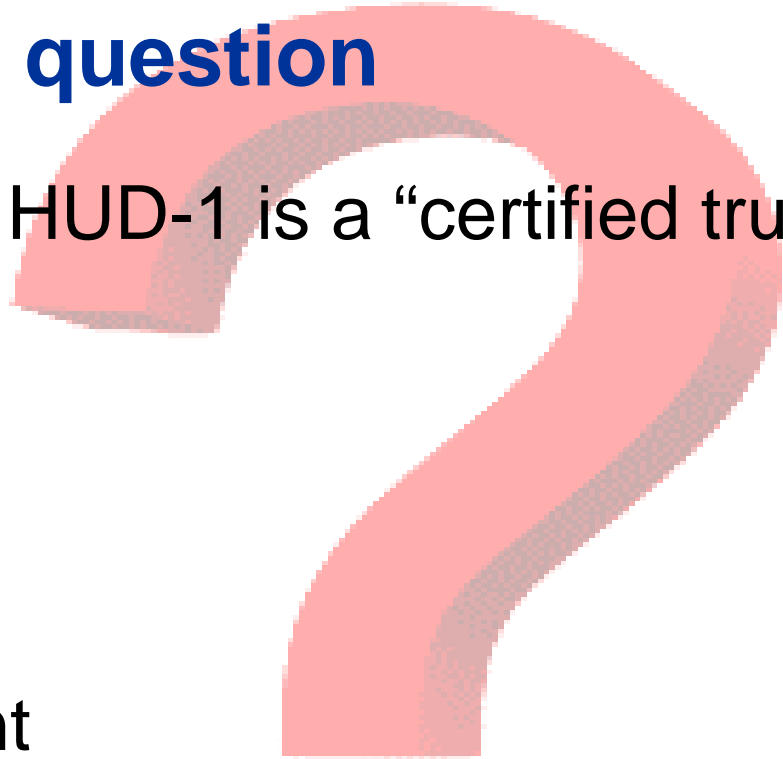
- Buyer on HUD-1 must be same as buyer on approval letter
- Seller receives no commission or proceeds from sale
- Include Power Of Attorney when sending HUD-1 to servicer
- HUD-1 must be “certified true final”



Certified True Final question

Who certifies that the HUD-1 is a “certified true final”?

- a) Servicer
- b) Closing Agent
- c) Real Estate Agent
- d) Investor

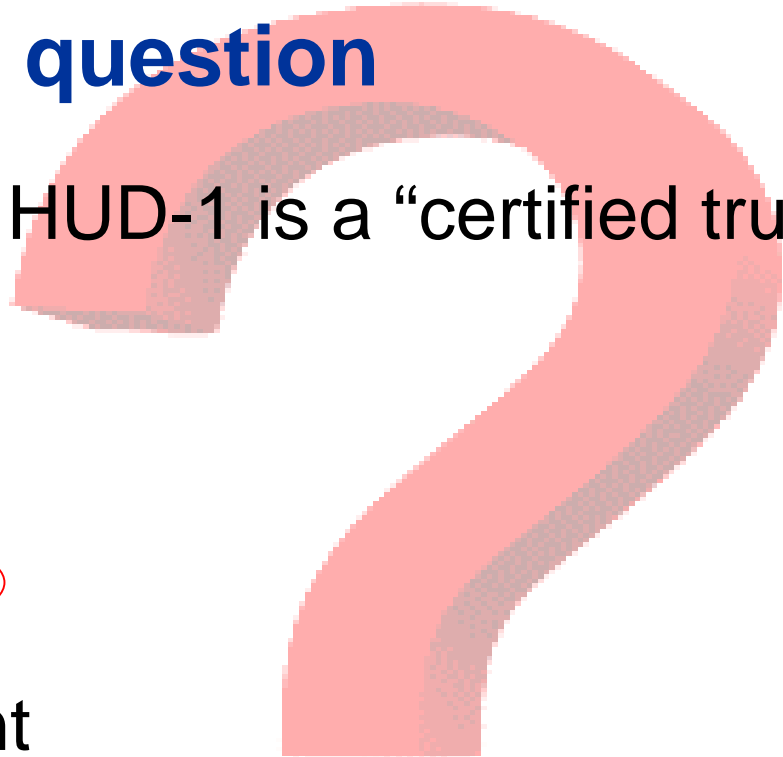




Certified True Final question

Who certifies that the HUD-1 is a “certified true final”?

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- b) Closing Agent**
- c) Real Estate Agent
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Short Sale Hurdles

- Promissory notes must be prepared by Freddie Mac
- Executed promissory note must accompany HUD-1
- Do not reduce seller cash contribution
- Changes on HUD-1 to contract sales price or of buyer not pre-approved will negate the short sale



Resources

- Reinforce short sale as a workout option with servicers
- Continue to educate homeowners to avoid foreclosure
 - ✓ Retention options
 - ✓ Liquidation options
- Train and educate real estate professional
 - ✓ Webinar
 - ✓ Conference
 - ✓ Online reference material



Resources

http://www.FreddieMac.com/corporate/buyown/english/avoiding_foreclosure/index.html

http://www.FreddieMac.com/corporate/buyown/spanish/avoiding_foreclosure/index.html



Recap



We discussed:

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- Background and key statistics on delinquencies and workouts
- Real Estate Professional's Perspective on current environment
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- Short sales



Questions

Training

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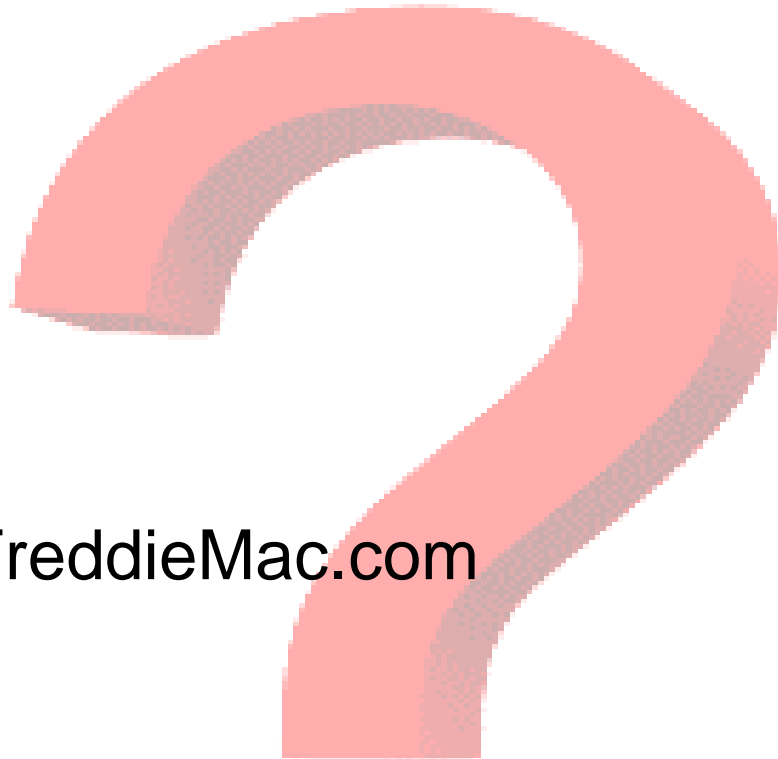
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Thank you for your
participation!