

Harris Real Estate University

Agent Short Sale Secrets

Short Payoff vs Short Sale

In our current real estate environment it is crucial that all Real Estate Agents are able to fully understand the difference between a **“Short Sale”** and a **“Short Payoff”**.

A **Short Sale** is where the lender or investor agrees to accept an amount less than actual owed on the property.

The **Criteria for a Short Sale** are that the borrower demonstrates a verifiable long term hardship.

Ok, in today’s environment we know that the banks are sometimes not verifying hardships however I want you to be very careful not to get yourself mixed up in unethical or illegal behavior. Sometimes the easy way is not the best way.

A **Short Payoff** is when the lender agrees to release the lien (their interest) on the property and allow the property to be “conveyed” to a new owner. The lender agrees to accept less than the amount owed on the property to release the lien however they extend a certain amount of “credit” to the borrower in the form of an unsecured line of credit or promissory note.

The **Criteria for a Short Payoff** – The mortgage is current, the borrower has great credit, the borrower had and can demonstrate the ability to pay off the debt.

When would you request a Short Payoff? – You would request a short payoff when the home has lost value dramatically and the borrower / seller does not have the ability to pay the large amount to get completely out of the property.

Note – Not all lenders will allow for a Short Payoff, however you will never know if you never ask.

What will happen to your reputation or your creditability with your client if you are able to assist them in completing a short payoff?

How does a Short Payoff help your client?

- Your client is able to move out of the property and get on with their life.
- The client SHOULD receive no negative feedback on their credit.
- Your client enjoys in most cases a lower interest rate on the loan. (We have seen lenders do promissory notes at as low as 1 and 2%).
- If for some crazy reason your client's ability to pay changes and your client is not able to pay the note, the credit ramifications are significantly smaller.
-

How to apply for a short payoff

1. If possible call the lender and ask them if they will accept a short payoff. Remember you may need to talk to a supervisor or to loss mitigation directly.
2. Put together your package, this is the same information as your short sale package, however the goal is to show the lender the ability to pay not the inability to pay.
3. Do not accept the first no as the answer, and never paint a lender or servicer with a broad brush. Remember most lenders do not work with just one investor, lenders sell their loans to different investors so if Countrywide says no today that does not mean no tomorrow.

Man in the Arena

"It is not the critic who counts: not the man who points out how the strong man stumbles or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes up short again and again, because there is no effort without error or shortcoming, but who knows the great enthusiasms, the great devotions, who spends himself for a worthy cause; who, at the best, knows, in the end, the triumph of high achievement, and who, at the worst, if he fails, at least he fails while daring greatly, so that his place shall never be with those cold and timid souls who knew neither victory nor defeat."

Theodore Roosevelt