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Short Sales in Today's Real Estate Market:
What Buyers & Sellers Need to Know

What Is a Short Sale?

A short sale happens when a homeowner sells their property for less than the outstanding mortgage balance, and the lender agrees to accept the lower amount. It is an alternative to foreclosure and can be less damaging to credit. In some states, lenders must waive the deficiency by law.

How It Works: Step-by-Step

1. Financial Hardship: Homeowner must prove hardship (job loss, medical bills, etc.). 2. Find a Buyer: The home is listed, often 'as-is.' 3. Submit Offer to Lender: Lender reviews and approval can take months. 4. Deficiency Judgment: Depending on state law, lenders may or may not pursue the remaining balance. 5. Closing: Once approved, the sale closes like a normal transaction.

Why Sellers Choose a Short Sale

✔Avoids severe credit damage of foreclosure. ✔ May qualify for debt forgiveness by the lender. ✔ Preserves more control compared to foreclosure. Alternatives include loan modifications and deeds in lieu of foreclosure.

What Buyers Should Know

✔Opportunity to purchase below market value, but requires patience. ✔ Expect a longer closing process due to lender approval. ✔ Most short sale homes are sold 'as-is,' so inspections and due diligence are crucial.

Credit & Tax Implications

✔Credit Impact: Worse than a standard sale, but not as severe as foreclosure. ✔ Tax Consequences: Debt forgiven in a short sale may be considered taxable income unless excluded by law, such as under the Mortgage Forgiveness Relief (extended through 2025).

A Note on Timeline

Expect the process to take several months. Approvals vary based on the lender and completeness of documentation.

Final Thoughts

Short sales provide a structured option for struggling homeowners and potential bargains for buyers. Be prepared for longer timelines, paperwork, and the need for professional guidance.

Comparison: Short Sale vs. Foreclosure

Category	Short Sale	Foreclosure
Process	Negotiated with lender, requires approval	Lender seizes property through legal process
Credit Impact	Negative, but less severe than foreclosure	Severe, stays on report up to 7 years
Timeline	Several months (slow lender approval)	Varies, often quicker once legal process starts
Deficiency Balan	May be waived depending on state/lender	Often lender can pursue for deficiency
Tax Implications	Forgiven debt may be taxable, with some exclusions	Forgiven debt may be taxable, often harsher consequences
Control for Seller	Seller keeps some control, avoids foreclosure	Seller loses all control, process is involuntary
Buyer Opportuni	Potential below-market purchase	Auction purchase, often as-is, distressed