



A SELLER'S GUIDE

Short Sales, Explained Plainly

When the home is worth less than the loan — how the process actually works, what your lender will ask for, and the questions to get answered in writing.

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A Note Before We Start

Let me say the most important thing first, because it is the thing nobody in this situation hears often enough: **owing more on your home than it will sell for is an arithmetic condition, not a character flaw.** Markets move. Jobs change. Incomes stall, hours get cut, a marriage ends, an illness arrives with its own weather system. I've sat at kitchen tables across Burlington and Camden Counties with careful, hardworking people whose numbers simply stopped adding up — people who did nothing reckless and still ended up here. If that's your table, there is no shame in this guide, and none in the conversation it points you toward.

What there *is*, is a process worth understanding before you sign anything — because a short sale is one of the few real exits from an underwater mortgage, and like most exits, it works best for the people who walk into it with clear eyes.

Two things about my role, said plainly. **I'm a REALTOR®, not an attorney, not a tax professional, and not a financial advisor.** A short sale sits at the crossing of real estate, law, and taxes, and you will need qualified people on more than one of those corners — this guide will keep pointing at them. My job here is the map: what a short sale is, how the machinery actually runs, where it stalls, what to get in writing, and how to tell whether it's even your door.

My philosophy in every transaction is **calm over chaos** — and nowhere does calm matter more than in a decision made under financial pressure. Nothing in these pages needs to happen today. Anyone who tells you otherwise is telling you something about themselves.

— Bob

1 What a Short Sale Actually Is

Start with the plainest definition, because the term gets used loosely and sometimes dishonestly.

In a short sale, you sell your home for what the market will actually pay — and your lender agrees to accept that amount as the settlement of a loan that is larger than the price. The "short" is the gap: the distance between what the home brings and what is owed. You are not finding a loophole. You are asking the lender to take less than the contract promised, in exchange for a sale that recovers more of their money, more cleanly, than the alternatives in front of them.

Three facts follow from that definition, and the whole guide hangs on them:

- **It is a normal sale with one extra party.** There is still a listing, a buyer, an offer, a closing. But every meaningful step also needs the lender's agreement — because the lender is the one being asked to

absorb the gap.

- **The lender has the final word.** Not you, not your agent, not the buyer. The lender reviews your circumstances and the offer, and decides whether the sale may proceed and on what terms. A short sale is a request, made with documentation, and it can be declined.
- **It is not a foreclosure.** A foreclosure is the lender taking the home through a court-governed process after payments have failed. A short sale is you selling the home, with the lender's permission, before that process runs its course. Different machinery, different experience, different ending — which is why homeowners in trouble so often ask about this door first.

Nothing about it is automatic, and nothing about it is instant. It is often a long process — months of other people's calendars — and the sections ahead are honest about that. What it offers, in exchange for the patience, is a sale you participate in rather than an outcome that happens to you.

2 Who This Is For — and Who It Isn't

A short sale is a specific tool built for a specific situation. It asks three things to be true at once:

You owe more than the home will sell for. This is the entry condition, and it has to be real — established by an honest look at what comparable homes are actually bringing, not by hope in either direction.

There is a genuine hardship. Something changed that makes the current payment unsustainable: income lost or reduced, a divorce, a relocation you can't decline, a medical event, a payment that reset beyond what the household can carry. The hardship doesn't have to be dramatic, but it does have to be documentable — because you will be asked to document it.

You need to move on. The home has to be sold — not merely lightened. A short sale ends your ownership of the house; it is a door out, not a way to stay at a lower price.

And now the other side, just as plainly, because honest guides owe you this too: **a short sale is not a strategy for walking away from a home you can afford.** Lenders require a documented hardship and a full, open look at your finances before they will even engage — the file in the next section is exactly that look. A household that can carry its payment but would simply prefer not to will not pass that review, and shouldn't expect to. There is no version of this process that rewards concealment; the entire machinery runs on disclosure.

If your situation is the first set — underwater, hardship, need to move — read on. If parts of it don't fit, Section 8 and my companion guide *Avoid Foreclosure* walk the wider ladder of options, which is where many households honestly belong.

3 The Hardship Letter and the Paper Life

Here is the part of a short sale nobody warns you about, and the part most within your control: **before the lender will consider the sale, you will essentially apply — in reverse.** When you took out the loan, you proved you could pay. Now you document, just as thoroughly, why you cannot. The bundle of proof is usually called the short sale package or hardship file, and its completeness decides how the process breathes.



The file is unglamorous, and it is the part of the process most fully in your hands.

The file generally asks for categories like these:

- **The hardship letter.** A written explanation, in your own words, of what changed and why the payment can no longer be sustained. Specific, factual, and signed. This is the human cover page on a financial file — write it like one.
- **Proof of income.** Pay records, benefit statements, or documentation that there is no income where there used to be — whatever honestly shows the household's current earnings.
- **Bank and account statements.** The lender sees the whole picture: what's coming in, what's sitting where.

- **A monthly budget.** Income against expenses, laid out plainly — the arithmetic that makes the hardship visible rather than asserted.
- **Recent tax returns.** The recent past, on paper, to sit beside the present.
- **The mortgage picture itself.** Statements for every loan on the home, and any notices you've received — which is one reason the advice in Section 6 about keeping every letter matters.

Two disciplines make this file work. The first is **completeness**: lenders process these files in queues, and a file missing a document doesn't get reviewed and set gently aside — it stalls, sometimes until someone notices. Complete files move; incomplete files wait. Of everything in a short sale, this is the variable most fully in your hands.

The second is **consistency**. The letter, the budget, the statements, and the returns must all tell the same story, because they will be read side by side. If the story is true — and it needs to be — consistency is just a matter of care.

You prove the hardship the way you once proved the income: on paper, completely, and without decoration. A complete file is the one part of this process that is entirely yours to control.

An agent experienced in short sales and, importantly, your own attorney should review the file before it goes — the attorney's role is explained in the sections ahead, and it is larger than most homeowners expect.

4 The Process, Step by Step

With the file understood, here is the road itself, in the order it actually happens.

Step one: assemble your corner. Before anything is listed, you want two professionals in place: a real estate agent who has genuinely worked short sales before — this is a specialty, not a side quest — and a real estate attorney of your own. The attorney is not optional decoration. They review what you'll sign, they interpret the lender's terms when they arrive, and they are the only person in the room whose job is solely your legal position. Legal aid and housing counselors (Section 6) can help you find guidance if cost is the barrier.

Step two: list the home at a real market price. The home goes on the open market, priced where comparable sales say it will actually trade. This is not the moment for optimism — a lender will eventually test the price against their own valuation, and an offer that never comes helps no one. Everything my guide *The 5 Dangers of Overpricing Your Home* says about stale listings applies here with interest: the goal is a real buyer with a real offer, because the offer is what the lender ultimately decides on.

Step three: a buyer's offer joins your file. When an offer arrives and you accept it, it goes to the lender together with your hardship package. Understand what that means: you and the buyer have agreed, but the sale does not yet exist in any final sense. The lender's review is the sale's true gate.

Step four: the lender values the home and reviews everything. The lender typically orders its own valuation of the property and weighs the whole picture — your hardship, your file, the offer, the value. This step runs on the lender's calendar, not yours, and it is where most of the waiting in a short sale lives. Your agent's job in this stretch is unglamorous and essential: tracking the file, answering document requests immediately, and keeping the buyer informed enough to stay.

Step five: the approval letter — read it like the contract it is. If the lender approves, the terms arrive in writing: the acceptable price, the conditions, the closing requirements. Read every line, with your attorney, before anyone celebrates. In particular, the approval must answer — in writing — **the question of the remaining balance: what happens to the gap between the price and what you owed.** Lenders' answers on this point vary, and the consequences of each answer are legal and tax questions, not real estate ones. I am deliberately not going to sketch the possibilities here, because the only version that matters is the one printed in *your* approval letter, interpreted by *your* attorney and your tax professional. If that answer isn't in the letter, it isn't settled.

One complication to surface early: other liens. A second mortgage or home equity line means a second lender whose agreement is also needed — and that lender is being asked to accept less, from a weaker position, which makes the negotiation harder, not impossible. Property tax liens and homeowners association liens can sit in the same line. None of this is a reason to hide them; it is the opposite. Every claim on the home needs to be named in the file from the start, because a lien discovered late can undo the whole effort at the worst possible moment.

5 The Buyer's Patience Problem

A short sale asks something unusual of the person on the other side of the table: it asks a buyer to commit to a home and then wait — on a lender's review they can't see, on a calendar nobody fully controls — for permission to buy it.



The street keeps its own calendar. A short sale asks the buyer to live on the lender's.

Many buyers simply can't. Their own sale is closing, their lease is ending, their financing has its own clock. Others can wait but won't, in a market with other doors to knock on. This is not a character flaw in buyers; it's the structural fact of the process, and a good short sale plan is built around it.

What that means in practice:

- **The listing must be honest about what this is.** A short sale disclosed plainly, priced at the market, screens for the buyers who can actually stay — the ones whose timelines bend. Surprises discovered later don't create patience; they create departures.
- **Communication is the retention strategy.** Buyers who hear steady, truthful updates can endure a wait. Buyers who hear silence assume the worst and go find another house. Your agent's follow-through with the buyer's side is not a courtesy — it's load-bearing.
- **A fallen deal restarts the clock.** If a buyer walks deep into the process, the next offer doesn't resume where the first one left off; the lender's review substantially begins again with the new buyer's paperwork. That is stated as process reality, not as a threat — it is simply why choosing a patient, well-qualified first buyer matters more here than in any ordinary sale.

None of this makes a short sale a bad plan. It makes it a plan whose success is built from honesty and follow-through rather than speed.

6 Your Part While It Runs

A short sale takes time, and the household still has a job during it. Your part is unglamorous, and it matters more than any single document.



Keeping the home standing — swept, planted, insured — is part of the negotiation, whether anyone says so or not.

Keep the home standing. As best your circumstances allow, keep the house maintained and the insurance in force. The home is the asset this entire negotiation is about; a property that deteriorates during the review weakens the sale everyone is working toward — and an uninsured loss in the middle of it would be a second crisis stacked on the first.

Keep communicating. With your agent, with your attorney, and — through the channels they advise — with your lender. Document requests answered the day they arrive. Phone calls returned. Silence reads as absence, and absence is the one impression this process cannot afford.

Keep everything. Every notice, every letter, every statement, in one folder. Timelines and procedures in a distressed mortgage are deadline-driven and governed by rules that belong to your attorney to interpret — but the attorney can only work with the paper you actually have. The folder is your memory, and in this process, memory is evidence.

And now the section I wish weren't necessary: the predators. Financial distress attracts a particular species of business, and it advertises exactly where frightened homeowners look. Learn its shapes:

- **Foreclosure-rescue fees.** Anyone who asks you to pay upfront for stopping a foreclosure or negotiating with your lender is showing you their business model: your fee. Do not pay it. The negotiation that matters is free to start — it starts with your own lender, your attorney, and the counselors below.
- **Deed-transfer "help."** Anyone who proposes that you sign your home over to them — temporarily, they say, for your protection — is proposing the single most dangerous signature a distressed homeowner can make. Never sign your deed to a helper. Ever.
- **Rent-back rescue schemes.** A close cousin: you sign the home over and "rent it back" while they fix everything. The fixing rarely materializes; the deed, however, has moved.
- **Guarantees.** Lenders approve short sales or they don't. Anyone who guarantees an outcome from a third party's decision is guaranteeing something that is not theirs to promise.

The legitimate help, by contrast, is easy to recognize because it never asks for your deed or an upfront rescue fee: **your own real estate attorney; a HUD-approved housing counselor** — counselors approved through the federal housing department exist specifically to advise distressed homeowners, typically at little or no cost, and can walk the full ladder of options with you; **your agent**, experienced in these sales; and **your lender's own loss-mitigation department**, which is the counter across the table and should be treated as a negotiating party — approached with your file complete and your attorney informed, not as a rescue line. My guide *Should You Sell Your Home Fast for Cash?* carries the same warning in a neighboring field: urgency is the predator's favorite tool, and a legitimate helper can always survive you taking a day to verify them.

7 The Honest Consequences

A guide that only lists benefits is a brochure. Here is the other side, at the same volume.

A short sale is a real credit event. You did not pay a debt as agreed, and your credit record will reflect that, in the lender's reporting and in the settled status of the loan. I won't put a figure on the impact — anyone who quotes you a precise number for your situation is guessing with your life — but I won't soften it either: it will matter, for a while, to future lenders who read the record.

It is also, for many families, the least damaging door that was actually open to them. That comparative sentence is as far as honest goes. A short sale is a sale you participated in — chosen, documented, negotiated — rather than a process completed against you. For a household that has run the options in *Avoid Foreclosure* and landed here, that difference is real: in control, in dignity, and in how the record reads to the next person who reviews it. Whether it is the right trade for *your* household is a judgment for you, your attorney, and your counselor — made with your actual file in hand, not with this guide's generalizations.

Two shadows need naming, and then routing. The first is the remaining balance: if your approval letter does not clearly settle what happens to the gap, that question stays open until it is answered — in writing, by the lender, interpreted by your attorney. Do not let closing day arrive with it unasked. The second is taxes: forgiven or settled debt can carry tax consequences, and whether any apply to you depends on your approval terms and your overall financial picture. That is a CPA's question — asked *before* you accept the approval, not the following spring. Both shadows are manageable. Neither is manageable by ignoring it, and neither will be answered with conclusions in a guide like this one, because honest answers live in your documents, not in print.

8 When a Short Sale Is the Wrong Door

Part of explaining a tool plainly is marking where it doesn't fit.

You have enough equity to sell conventionally. If the market will actually cover the loan and the costs of selling, you don't need anyone's permission — list the home, sell it, and close this chapter with the simplest machinery there is. Homeowners sometimes assume they're underwater when they aren't; a real valuation comes before this entire conversation.

The hardship is temporary, and the bridge exists. A short sale is permanent — the home is sold. If the income returns, the crisis passes, or the lender will genuinely restructure the road back to current, selling may solve a temporary problem with a forever answer. The keeping-the-home options — and the order to try them in — live in my companion guide *Avoid Foreclosure*, and a HUD-approved counselor can run them against your real numbers.

A necessary party won't cooperate. A lender who declines, or a junior lienholder who won't settle, can end the strategy no matter how complete your file is. This is worth learning as early as possible — which is another argument for the attorney and the experienced agent at step one, and for surfacing every lien before the listing ever goes live. Knowing early that a door is closed is not failure. It is mercy: it returns your time and attention to the doors that are actually open.

You need certainty more than you need this particular outcome. If a hard deadline governs your life — a relocation date, a court-set schedule — a process that runs on a lender's calendar may be the wrong

instrument regardless of its other virtues. That, too, is a fit question, and it belongs in the first conversation, not the last.

9 The Short Sale File: What Your Lender Will Ask For

Everything in one place. Your lender's exact list governs — this is the shape of it, so nothing arrives as a surprise:

The story

- ☐ A hardship letter in your own words: what changed, when, and why the payment can no longer be sustained
- ☐ Supporting evidence of the hardship itself, where documents exist

The money, documented

- ☐ Recent pay records or other proof of current household income — or documentation of its absence
- ☐ Recent bank and account statements
- ☐ A plain monthly budget: income against expenses
- ☐ Recent tax returns
- ☐ Statements for every loan secured by the home — first mortgage, second mortgage, equity line

The house, surfaced whole

- ☐ Every lien or claim you know of named early — tax, association, judgment, second lender
- ☐ Insurance kept in force and the home maintained as best you can
- ☐ Every notice and letter from the lender, kept in one folder

Your corner, assembled

- ☐ A real estate attorney of your own, reviewing before you sign
- ☐ An agent with genuine short sale experience
- ☐ A HUD-approved housing counselor consulted on the full ladder of options
- ☐ A CPA's read on the tax questions — before accepting any approval
- ☐ The remaining-balance question answered in the written approval — not assumed

Assemble it before the listing goes live wherever you can. The file is the one part of this process entirely within your control — and complete files move.

A Final Word

If you've read this far, you've already done the hardest part: you looked at the situation directly instead of looking away from it, and that is where every workable outcome I've ever seen in this territory begins.

A short sale is not a rescue and it isn't a disgrace. It's a negotiated ending to a loan that life outgrew — slower than anyone wants, more paperwork than anyone enjoys, and for the right household, a genuinely better ending than the one that arrives by default. The households that come through it best share a pattern: a complete file, an attorney in their corner, a counselor's honest read, and a refusal to sign anything — anything — in a panic.

Whatever your numbers say, you deserve advice that works for you rather than for the person giving it. Start with the conversation. Bring the folder. We'll lay the options out in order, calmly, and you'll decide — with the process legible at last.

Ready when you are

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The information in this guide is general education, not legal, tax, or financial advice. A short sale involves legal and tax questions — including what happens to any remaining balance and how a settled debt is treated at tax time — that only your own professionals can answer from your actual documents. Consult a qualified real estate attorney and a CPA about your specific situation, and consider a HUD-approved housing counselor, who can review your full range of options, before signing anything or agreeing to any terms. If your property is currently listed with a REALTOR® or broker, please disregard this guide — it is not intended to solicit other brokers' listings. Information deemed reliable but not guaranteed.