

FHA Preforeclosure Sales Initiated Before an Offer

10 Tips for Efficient FHA Short Sales



1. Set expectations about FHA short sales.

Help sellers and buyers understand that a Federal Housing Administration (FHA) Preforeclosure Sale ("short sale") is a complex, specialized transaction compared with conventional investor transactions, due to specific Department of Housing and Urban Development (HUD) requirements. While traditional short sales typically close in 30 to 45 days once the offer has been approved, HUD requires the homeowner to be approved to participate in the FHA short sale program. This approval can take 30 to 90 days (depending on specific circumstances) and does not involve a review of the listing agreement or purchase contract.

2. Review all documents before submitting, including initiation documents, and fully execute.

Collect, read, review and revise all homeowner's documents before submitting to the assigned short sale specialist. It is important to read the HUD Mortgagee Letter provided in the Welcome Package. Other tips for effectively executing documentation include:

- Review and return requested documents within the specified time frame.
- Continuously collect financial documents until ATP is received (30 days).
- Complete all fields (using N/A when necessary) in each document.
 - Scan documents and submit by email as one complete package.
 - Ensure signatures are handwritten (wet ink) before scanning the document.
 - Type "Completed Welcome Packet" in the email subject line when submitting the completed packet.

3. Pay special attention to property guidelines.

It is important to note that FHA properties:

- Are sold "as-is"
- Must have utilities turned on during the entire marketing period
- May be rekeyed by Property Preservation if vacant (for assistance, contact the Property Preservation Resolution Center at 1.866.515.9759)

4. Request investor approvals when needed.

Additional investor approval must be requested for transactions outside of Bank of America's delegation authority with HUD. Investor approvals can take from 3 to 4 weeks, and can only be expedited if the buyer's rate lock is expiring or the buyer's lease is expiring and sufficient documentation is provided. If the property has been rented longer than 18 months, HUD will require investor approval.

5. Be aware of document expiration timelines.

HUD has strict timelines that dictate the short sale process. These timelines may cause some documents to expire, requiring the agent to submit updated documents throughout the lifecycle of the short sale. Learn more about timelines by visiting HUD.gov.

6. Expect to work with multiple contacts.

Throughout the FHA short sale process, you will work with multiple short sale specialists and will not have a single contact associated with your file.

7. Factor in HUD incentives.

HUD dictates the amount of incentives payable to the seller, up to \$1,000. Additional short sale relocation assistance incentives do not apply. Seller incentives will be applied to any second liens greater than \$1,500. Any surplus after the second lien has been paid, will then be paid to the seller.

8. Understand special fee requirements.

It is important to understand the various FHA requirements regarding fees.

- HUD's maximum allotment for attorney/settlement fees on a purchase price \$150,000 or below is \$750, and for purchase prices \$150,000.01 and above the maximum is \$1,500.
- HUD will pay for unpaid utilities with proof of utility statement, but fees such as late fees, interest, attorney/collection fees and service fees are not paid.
- Buyer's closing costs can be a maximum of 1% of the principal loan amount (not the purchase price) for qualified FHA buyers. The principal loan amount can be found on line 202 of the settlement statement.
- HUD will not approve any pest inspection fees or repair costs.

9. Know when net sales proceeds are affected.

Regardless of the property's sale price, the mortgagee may not approve a short sale contract if the net sale proceeds fall below the minimum allowable thresholds. HUD has established guidelines for varying minimum net sales proceeds based on the length of time a property has been on the market.

- For the first 30 days of marketing, mortgagees may only approve offers that will result in minimum net sale proceeds of 88% of the "as-is" appraised Fair Market Value (FMV).
- During the next 30 days of marketing, mortgagees may only approve offers that will result in minimum net sale proceeds of 86% of the "as-is" appraised FMV.
- After 60 days and for the duration of the short sale marketing period, mortgagees may only approve offers that will result in minimum net sale proceeds of 84% of the "as-is" appraised FMV.

10. Watch for common causes of delays.

- Inaccurate, incomplete and/or expired documentation
- Lack of participation from the agent or homeowner