

FHA Preforeclosure Sale AKA Short Sale



FHA Statistics for Jacksonville, FL

January 2014

	Insurance in Force	Serious Defaults	Default Rate	Foreclosures	Foreclosure Rate
Month of Jan	36,665	4,586	12.51%	35	0.10%

	Retention Tools	Nonretention Tools	Total LM	Workout Ratio	
Month of Jan	154	28	182	83.87%	
FY 2013	1,140	290	1430	78.06%	
FY 2012	935	316	1251	78.78%	

Notice

The information in this presentation is not intended to substitute or alter requirements and guidelines found in the FHA handbooks, mortgagee letters and other official FHA publications.

The contents of this presentation are subject to change.

Lender overlays may exist.

Preforeclosure Sale Program Property Value

- PFS Properties are to be listed at no less than the “As-Is” value.
- Obtain a Standard electronically-formatted appraisal from an appraiser on FHA’s Appraiser Roster.
 - “As Is”
 - Valid for 120 days
 - No Distress Sales
 - Properties => \$75,000 or 50% of UPB – Lenders must submit a variance to NSC



Mortgagee Letters 2013-23, 2008-43 and 2010-08

Preforeclosure Sale Program Property Value

- Upon request, Lenders are to provide a copy of the Appraisal to the Borrower, Sales Agent, or HUD.
- Lenders are responsible for the accuracy of all documentation used in the PFS decision, including the appraisal information.
- May obtain a new FHA appraisal, even if the property was appraised within the preceding 120 days.
- **Arms-Length Requirements** – The preforeclosure sale must be between two unrelated parties and be characterized by a selling price and other conditions that would prevail in a typical real estate sales transaction.



Preforeclosure Sale Program Contract Approval

Minimum Net Sale Proceeds:

- First 30 days – net 88% of “As Is” appraised FMV.
- Second 30 days - net 86% of “As Is” appraised FMV.
- Duration of PFS - net 84% of “As Is” appraised FMV.

Allowable Settlement Costs:

- Sales Commission – 6% Max.
- Real Estate Taxes.
- Local/state transfer tax stamps and other closing costs customarily paid by the seller.
- Up to 1% of the buyers first mortgage amount if sale includes FHA financing.
- Other Allowable/Disallowable Settlement Costs:
http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_14627.pdf

Standard - Short Sale

- Borrower is experiencing a Hardship
- Lender applies the Deficient Income Test
- Default Borrower
- Imminent Borrower
 - Evidence of their default hardship
 - Evidence that the DIT results a negative value



Deficit Income Test Supporting Documentation

The Lender must:

- Verify Borrower's monthly net income
 - Two most recent pay stubs
 - Self-employed – recent quarterly or year to date profit and loss statement
 - Recent W-2, Form 1099, or Federal Tax Return
- Verify the Borrower's monthly expense
 - Credit Report
 - Expenses supported by bills, payment receipts, and utilities – use the IRS Index
 - Past-due Balances use minimum payment prior to delinquency

Cash Reserve

- Lender must obtain Borrower's:

- 3 most recent bank statements
- 3 most recent brokerage statements
- Borrower's most recent Federal Income Tax Return

Lender is to use the highest ending balance of each Cash Reserve Asset.

- Cash Reserve = non-retirement liquid assets.
- Cash Reserves that are greater than \$5,000, Borrower must contribute 20% towards principal balance.



Streamlined

● Eligible Properties

- Principle Residence
- Second Homes
- Investment Properties

● Streamlined – PFS – Lenders do not:

- Verify hardship
- Obtain financial information
- Determine Cash Reserves

● Non-Owner Occupant

- At Review – Loan is 90 days or more delinquent
- Each Borrower has a credit score of 620 or below

Streamlined

● Owner Occupant

- At Review – Loan is 90 days or more delinquent
- Each Borrower has a credit score of 620 or below
- Borrower must have been reviewed for Loss Mitigation Home Retention Options and one or more of the following conditions have been met:

1. Defaulted on a Trial Payment Plan within the last 6 months,
2. Defaulted on a HAMP or Loan Mod within last 2 years,
3. Borrower is ineligible for a permanent Home Retention Option,
4. Borrower has a Credit Score below 580, or
5. Provides written documentation stating they choose not to accept the Loss Mitigation Home Retention Option.

Streamlined

- **Servicemembers with PCS Orders**
- New Duty Station is 50 miles or more away from residence – provides copy of Orders to Lender
- Servicemember submits an affidavit certifying that:
 - FHA-insured mortgage was their principal residence and
 - New permanent housing has been or will be acquired due to Orders.

Resources

(FHA Resource Center)



1-800-CALL FHA (1-800-225-5342)
Monday-Friday 8:00AM – 8:00 PM (Eastern Time)
answers@hud.gov
24/7

National Servicing Center (1-877-622-8525)