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## Treasury Changes Rules on Short Sales

By [Brian O'Connell](#)

The U.S. Treasury Department is ratcheting up efforts to take financially swamped [homeowners](#) into “short sale” programs if they can’t get a loan modification deal. The trick is to throw some [government](#) cash onto the table to get lenders to go long on short deals.

The Treasury Dept. is revamping its short sales policy through its Home Affordable Foreclosure Alternatives Program (HAFA). On Nov. 30, the Treasury issued new HAFA guidelines that would provide incentives with a short [sale](#) or a deed-in-lieu of foreclosure to help avoid rampant foreclosures across the U.S.

By and large, a short sale is the [sale of a home](#) where the proceeds fall short of what the owner still owes on the mortgage. Short sales are more common when the homeowner is facing foreclosure. Mortgage lenders may agree to accept the proceeds of a short sale and release the homeowner of the remaining debt on the mortgage. By green-lighting a short sale, the bank or other lender can avoid an arduous foreclosure process, while the owner can pay off the loan for less than what is owed.

There are more of those kinds of homeowners than you might think. RealtyTrac reports that there were 306,627 U.S. properties in foreclosure in November 2009 — that’s up 18% from November 2008.

The HAFA program operates independently from the two major underwriters of [mortgage loans](#) in the U.S., Freddie Mac (Stock Quote: [FRE](#)) and Fannie Mae (Stock Quote: [FNM](#)). Both agencies, however, are expected to deliver changes to their short sales [policies](#) before the end of the year, the Treasury Department reports.

So what kind of change is the government talking about?

The new HAFA revisions feature a new wrinkle designed to make [short sale](#) purchases go faster — specifically, the pre-approval of sales terms before listing the property.

That should help U.S. families facing [foreclosure](#). A quicker short sale timeline will help beleaguered U.S. homeowners get out from under the weight of foreclosure by essentially releasing the homeowner from his or her mortgage debt. Under terms of the HAFA statutes, lenders must respond to short sale requests within 10 business days of the receipt of the offer to purchase.

In addition, the homeowner also gets a “relocation incentive” of \$1,500 deducted from the sales price at the closing.

Naturally, lenders get a piece of the pie, too. They get \$1,000 in “administrative” fees to cover any costs associated with a short sale. Lien holders also cash in. Under the new HAFA rules, the short sale buyer may be paid a maximum of \$1,000 for allowing lien holders to be paid from the proceeds of a short sale.

The new rules trigger next April, and are set to end in December 2011.

By any measure, any new rules that make it easier for a lender to provide homeowners with a short sale option instead of a foreclosure is a step in the right direction. Homeowners should approve, as likely will lenders and lien holders. That’s the long and short of it. Now, if a loan modification doesn’t work, the new HAFA regulations make short sales a good “Plan B.”