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# Short Sale - FHA Insured

Thank you for contacting Financial Freedom regarding a potential short sale. All of the guidelines/requirements needed to submit a complete short sale request are explained in this packet. It is important that you and/or your Designated Agent review this packet in its entirety. This introduction provides general guidelines for short sale consideration and explanations for several of the documents needed to consider your offer. Currently HUD offers two types of transactions. The first transaction is the HUD Redemption Short Sale and the other transaction is a 3<sup>rd</sup> Party Short Sale.

To consider the HUD Redemption Short Sale the loan must become due and payable upon the death of the mortgagor; the property must be conveyed by will or by the operation of law to the mortgagor's estate or heirs (including a surviving spouse who is not obligated on the HECM note). That party may satisfy the HECM debt by paying the lesser of the mortgage balance or 95% of the current appraised value of the property.

In order to proceed with the HUD Redemption Short Sale program, you must submit:

- A signed statement which describes your intent of retaining the property for the lesser of the mortgage balance or 95% of the current appraised value must be sent.
  - Your letter must include account information such as the loan number and property address.
  - Your intent to retain the property.
  - Contact information for the person who will grant access to the property for an appraisal.
  - Your signature.
- You must also include documentation that proves you are an heir and are entitled to participate in this program. Examples of the appropriate documentation include a trust or last will and testament.

After receiving and reviewing your request and documents, an appraisal will be ordered to determine the property value. Upon receipt of the appraisal, an approval letter will be issued to provide you with the approved payoff amount and information necessary to remit payment. With the payment, you must include a copy of the grant deed in your name or other applicable document that proves the title was conveyed to you, the heir.

To proceed with a 3<sup>rd</sup> Party Short Sale, the following criteria should be met:

- You have the legal right to sell the property.
- The current appraised value is less than the payoff balance of the loan.
- The transaction is an 'as-is' transaction, meaning that the buyer accepts the property in the condition in which it is reasonably observable.

Enclosed you will find a checklist you may use to confirm you have compiled a complete 3<sup>rd</sup> Party Short Sale request prior to submission, an authorization form for your Designated Agent, information regarding the different documents needed for a short sale consideration and a Frequently Asked Questions section.

# Short Sale - FHA Insured



Short Sales may take 90 days or more to complete. It is always recommended that potential buyers be aware of the processing time so there are no misconceptions. Complete packets must always be submitted, even if only revising documents. This eliminates confusion or the possibility of missing documentation. **Incomplete packets will not be reviewed or retained.**

Once all of the required documentation needed for short sale consideration has been compiled, please fax or email the complete package to the number or email shown below. All requests are reviewed in the order in which they are received.

FAX: (866) 557-1224, Attn: Short Sale Department

EMAIL: [ShortSale@owb.com](mailto:ShortSale@owb.com)

## ACCOUNT STATUS

The account status will affect the short sale. Since there may be different guidelines for each status, please review the section below.

**MATURED ACCOUNTS** are loans where an event of default has occurred and HUD has approved the acceleration of the loan. The purchase price must be a minimum of 95% of the current appraised value. Mandatory/customary costs may be deducted when the costs are reasonable and are accompanied by supporting documentation clearly showing the deduction is the seller's responsibility and detail the amount of the expense. More detailed information may be found on this topic in the section of this packet titled HUD-1 Guidelines.

**ACTIVE ACCOUNTS** are loans where no event of default has occurred and the loan has not been accelerated. The purchase price must be a minimum of 100% of the current appraised value and may not have *any* costs deducted from the sales proceeds. This means expenses such as real estate taxes and realtor's commissions would need to be paid by other means. Negotiations regarding payments of expenses not accepted as deductions will be between the buyer, seller and their agents.

Please keep in mind there may be occupancy exceptions for active accounts. An example would be accounts where the property is located in Texas. The state constitution will not allow the loan to be called due and payable unless the borrower has been out of the property for a minimum of 12 consecutive months. In this situation, if the borrower has moved less than 12 months ago, the account is treated as an active account even though the borrower has permanently moved, because the state statute will not allow acceleration of the loan.

If a borrower has permanently vacated the property, please have the borrower or their authorized representative send a signed notification of the move to our Occupancy Department via fax at (866) 429-6529.

# Short Sale - FHA Insured

## APPRAISAL

An appraisal is necessary to determine the value of the property. On FHA insured loans, the completion date of the appraisal must be within 120 days of the settlement date and must be obtained by Financial Freedom. Please refrain from ordering an appraisal as it cannot be used to consider the offer. If an appraisal must be ordered, the contact information provided on the Short Sale Checklist will be used to schedule an appointment for access to the property.

Any documentation regarding the property's condition that is from a viable source, such as a licensed professional, may be provided to the appraiser for review. Inspections, estimates and/or bids conducted after the appraisal cannot be considered as there is no way to verify the conditions were present during the appraisal inspection.

## DOCUMENTS

A complete short sale packet will include the following documents:

- The complete Short Sale Checklist.
- Letters of authority (if applicable – see Letter of Authority section for further information).
- The completed signed Authorization form for your designated agent.
- A signed purchase or sales agreement/contract.
- Preliminary HUD-1 Settlement Statement.
- Itemized invoices/bills, where applicable.
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LETTER OF AUTHORITY is the document which proves the seller's legal authority to convey title to the property. Often a power of attorney is used when the borrower is incapacitated. The power of attorney is usually invalid after a borrower passes away. In the event of a borrower's death, if there is a last will and testament, probate may or may not be required. Although probate may not be required, court approval is usually necessary. Since every state has different requirements, it is your responsibility to obtain legal advice on what is required for your situation.

If the borrowers themselves are signing all documents, documentation of their right to sell would not be necessary for short sale consideration.

AUTHORIZATION FORMS are required for all parties who will be obtaining account information. This is necessary due to privacy laws. Enclosed in this packet you will find an authorization form that may be used for your Designated Agent. Please complete one form per person and include them with your short sale request.

SALES OR PURCHASE AGREEMENT/CONTRACT is an agreement between both the buyer and seller. Financial Freedom is not the seller and is not under any obligation to honor the contents of the contract. It is for this reason that Financial Freedom will never approve or deny the contents of the contract.

# Short Sale - FHA Insured



For your protection it is recommended that the contract contain a short sale contingency, so you will not be held responsible in the event the short sale is not accepted. The buyer's proof of funds and/or mortgage prequalification letter or mortgage commitment letter should be included with the contract. The contract must be executed by all parties involved. Please make sure to include this document with your short sale request.

HUD-1 SETTLEMENT STATEMENT (preliminary) a section of this packet is dedicated to providing specific guidelines for preparation of this document. The section will provide the allowable and non-allowable expenses. Please review the HUD-1 Guidelines contained in this packet prior to submitting your request.

INVOICES should be itemized, detailing how the balance due on the invoice is achieved. Examples of expenses which would not require invoices are commissions, owner's title policy and the deed tax stamps or transfer taxes. Please send itemized invoices for all other expenses with your short sale request.

Keep in mind that while considering a short sale all normal servicing will continue. ***Submitting a short sale request or receipt of short sale approval will not stop foreclosure proceedings or postpone the initiation of foreclosure.***

If you have any questions you are welcome to call (800) 441-4428 for assistance. Thank you.

Sincerely,

*The Short Sales Department*

**"THIS COMPANY IS A DEBT COLLECTOR AND ANY INFORMATION OBTAINED WILL BE USED FOR THAT PURPOSE. HOWEVER, IF THE DEBTOR FILED A BANKRUPTCY PETITION AND THERE IS EITHER AN "AUTOMATIC STAY" IN EFFECT OR THE DEBT HAS BEEN DISCHARGED THROUGH THE BANKRUPTCY, THIS COMMUNICATION IS INTENDED SOLELY FOR INFORMATIONAL PURPOSES."**

# HUD-1 Guidelines – FHA Insured



The HUD-1 Settlement Statement is a document itemizing all charges to the buyer(s) and seller(s) on any real estate transaction. It is usually prepared by parties such as a title company/escrow company or an attorney. A HUD-1 settlement statement may not be legally required for every sales transaction, but is required by Financial Freedom on a short sale. It is the only document that will be accepted for the short sale. Please do not submit a net sheet or HUD-1(a).

**Please forward this document to the preparer of the HUD-1 Settlement Statement.** This will provide them with information necessary to prepare the HUD-1 Settlement Statement in accordance with short sale guidelines.

Deductions *will not be considered* on accounts which have not been called due & payable.

Accounts which have been called due & payable may have mandatory/customary deductions considered when costs are reasonable and documentation has been provided to show the deduction is a seller's expense, and the cost. Below are a few guidelines.

## ACCEPTED COSTS

Typically approved deductions include:

- Real Estate Taxes due up to the date of closing
- Realtor's or Broker's commission, not to exceed 6%
- Title Search
- Owner's Title Insurance
- Local state/city/county Deed Tax Stamps or Transfer Tax. Areas which label this cost under a different name, for example Conveyance Fee, will need to provide documentation to show the cost is equivalent to or the same as the deed tax stamps or transfer tax.

## OTHER COSTS

Any state/city/county specific costs will require additional documentation to show the expense is the seller's responsibility and the amount of the expense.

An example would be areas which require all properties to be fitted with water conserving appliances/hardware prior to title transfer. A clearly marked copy of the Retrofitting Ordinance is needed along with an Itemized Invoice outlining the cost is needed to consider the deduction. Please note, there is no guarantee of acceptance

## ATTORNEY'S FEES

Attorney's fees will not be considered in most states. The fee is only considered in areas where it is mandatory or customary for an attorney to facilitate the closing in a real estate transaction. Under no circumstances will probate costs be accepted. These loans are non-recourse and do not require payment. Since the loans do not require payment, the costs of probate will not be considered.

# HUD-1 Guidelines – FHA Insured



To consider attorney's fees the following documents are needed for review:

- Itemized invoice.
- Supporting documentation to show the mandatory or customary practices of your area.

The invoice must be itemized and cannot contain any of the items listed later in this document as deductions which will not be considered. The invoice must specify whether it is billable hours or a flat rate fee. The invoice must also include projected costs, if any. An example would be: Attend Closing. The total cost must be reasonable.

For the supporting documentation, an ordinance or state statute is the preferred documentation. If there isn't an ordinance or state statute to explain the normal and customary practices, other documentation may be submitted. Unfortunately there are no guidelines of what will be accepted as the documentation. It will be your responsibility to obtain documentation to justify the expense. At no time will any portion of the purchase agreement or a letter from the individual/company requesting payment be accepted as the supporting documentation.

In areas where it is not mandatory or customary for an attorney to handle the closing, the seller may still use an attorney. Financial Freedom will never deny a person their right to legal counsel. The cost will not be accepted as a deduction, and therefore will be at the seller's expense.

## HOA/CONDO ASSOCIATION

When payments are due to an association, Financial Freedom will approve the amount the association would be entitled to receive if the property were to be foreclosed upon. In most states this means 6 months of dues only; no late fees, interest or other charges. In super lien states we will follow the local statutes. It will be your responsibility to verify this information. If you are in a super lien state and are requesting more than 6 months of dues only, you must supply clearly marked documentation of the ordinance/statute showing what the association is entitled to receive. Without this documentation, you will receive approval for no more than 6 months of dues only.

To consider the cost a recent itemized invoice is required. The estoppel letter will not be necessary or accepted to consider association dues. At no time will association charges for expenses such as food/beverage or cable be accepted.

## RECORDING FEES

Financial Freedom will execute and submit for recording the release of mortgage at no cost to the seller. HUD will do the same for their release of mortgage. The cost of the release/satisfaction will not be accepted on the HUD-1 settlement statement.

# HUD-1 Guidelines – FHA Insured



## UTILITIES

Utilities, including municipal/lienable utilities, are the responsibility of the borrower and/or their estate, and will not be considered as deductions unless they are recorded liens against the property. A copy of the recorded lien must be provided for review. The recorded document must include the recording stamp.

## UNAPPROVED EXPENSES

Listed are expenses which are not accepted as deductions from the proceeds of the sale. ***If any of these items are deducted from the sales proceeds, the offer will be denied without further review.*** Negotiations regarding payments of costs not accepted by Financial Freedom are between the buyer, seller and their representatives. Keep in mind it is impossible to list every name for every deduction which will not be accepted. The list consists of general terms to outline the types of costs which will not be considered. Please refrain from renaming or rewording these costs in an attempt to obtain approval. These costs will not be considered, and this will cause the HUD-1 to be rejected which will delay the approval process.

- **Administrative fee**
- **Amp fee**
- **Appraisal fee**
- **Broker’s admin fee**
- **Buyer’s Credits**
- **Cancellation fee**
- **Closing fee**
- **Commitment fee**
- **Contract fee**
- **Courier fee**
- **Discount fee**
- **Document prep fee**
- **Endorsement fee**
- **Escrow fees**
- **Express mail**
- **Flood Expt Plus-2005**
- **Flood fee**
- **Funding fee**
- **Homeowner Incentive Program (HIP)**
- **Home warranty fee**
- **Inspections**
- **IRS liens**
- **Junior Liens**
- **Lender fee**
- **Lien Search**
- **Loan discount**
- **Management fee**
- **Notary**
- **Origination fee**
- **Other**
- **Post closing**
- **Probate costs\*\***
- **Processing fee**
- **Property Disclosure Fee**
- **Recording Fees**
- **Referral fees**
- **Release tracking fee**
- **Repairs**
- **Representative fee\*\***
- **Seller assistance**
- **Settlement fee**
- **Sub-escrow Fee**
- **Survey fee or cost**
- **Tax service fee**
- **Technology fee**
- **Title company fees**
- **Underwriting fee**
- **Utilities**
- **Wire fee**

\*\*Probate costs will also include, but are not limited to, costs such as recording a death certificate, trust affidavit fees, filing fees, personal representative fee (which is listed above as Representative Fee) and any other costs associated with the estate or trust.



# HUD-1 Guidelines – FHA Insured



## OTHER GUIDELINES

- All costs should be estimated for 90 days.
- The HUD-1 must contain the estimated settlement date.
- Deductions should be clearly labeled.
- Acronyms will not be accepted on the HUD-1.
- Earnest money/deposits must specify what the funds are being applied towards. For example commissions, attorney's fees, etc.
- The net proceeds of the sale should be entered as the payoff to Financial Freedom on line 504, not line 603. Financial Freedom is not the seller.
- Financial Freedom's full payoff should not appear on the HUD-1.
- All deductions should include itemized invoices when applicable (IE-taxes, HOA/condo association, etc...).
- All invoices must be itemized.

If corrections are needed, the entire short sale packet will need to be resubmitted for review. It will be your responsibility to verify the HUD-1 Settlement Statement has been prepared in accordance with Financial Freedom guidelines prior to submitting the complete short sale packet.

Once approved, the HUD-1 Settlement Statement will not require approval prior to closing. It is very important that deductions are adequately estimated. **After approval, if deductions have been added or actual costs exceed the estimated values, the short sale packet will need to be resubmitted for review/approval. Review and approval may take up to two weeks.**

Please keep in mind that preparing a HUD-1 Settlement Statement which complies with all of the guidelines set forth in this document is a crucial part in the short sale process. Please do not send the prepared HUD-1 separately, since incomplete offers will not be reviewed. Instead, provide the prepared HUD-1 to the designated agent so it may be included with the short sale packet.

Your cooperation is greatly appreciated, thank you.





# Short Sale Frequently Asked Questions

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**Q: What is a Short Sale?**

A: A Short Sale is a sale of real estate in which the sale proceeds fall short of the payoff of the loan.

**Q: Which loans qualify for a Short Sale?**

A: All loans may potentially qualify for a short sale as long as the current property value is less than the payoff.

**Q: What is the amount needed to pay off my loan in a Short Sale?**

A: Only offers which are 95% or more of the current value will be considered. Keep in mind, there is no guarantee of acceptance at any amount other than the full payoff. All offers are subject to approval.

**Q: Is there a direct number to the Short Sales department or a particular administrator?**

A: No. All calls are routed through customer service. Any customer service rep will gladly direct your call to the appropriate department.

**Q: Will I still be responsible for the deficit on the loan with an approved short sale?**

A: Financial Freedom will not enter a deficiency judgment against the borrower or their estate. The loans which are FHA insured, Financial Freedom will file a claim to have the remaining balance paid once the net proceeds have been received. For non-insured loans, the investor will have agreed to the loss.

**Q: Does this transaction need to be an Arm's Length transaction?**

A: No.

**Q: What is an Arm's Length transaction?**

A: An Arm's Length transaction is characterized by the following (1) the absence of a relation between the buyer and seller; (2) a selling price and other conditions that would prevail in an open market environment; (3) transaction costs paid by the seller that are considered both reasonable and customary for the market in which the property is located; and (4) the adherence to ethical standards of conduct by all parties involved in the short sale transaction, including the borrower (or the estate), mortgagees and appraisers. Please review the Arm's Length Certification, if included in your packet, for more details.

**Q: The loan is FHA-insured and as a family member/spouse I wish to purchase the property. Is that possible?**

A: Yes. HUD issued a Mortgagee Letter on 4/5/2011 rescinding Mortgagee Letter 2008-38 where the Arm's Length criteria is outlined.

# Short Sale Frequently Asked Questions

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**Q: What documentation is needed to consider a short sale?**

**A:** A list of required documents has been provided in both the introduction and the short sale checklist.

**Q: Where do I submit my short sale packet?**

**A:** A short sale packet may be sent via fax to (866)557-1224 Attn: Short Sale Department or via email to ShortSale@owb.com.

**Q: What if I don't have all of the documents requested, should I send what I have now?**

**A:** No. Short sale packets should be sent in their entirety. This saves time and eliminates confusion which allows Financial Freedom to service the file faster.

**Q: Will an incomplete short sale packet be considered?**

**A:** No. Incomplete packets will not be accepted or reviewed.

**Q: Will Financial Freedom accept the Net Sheet or HUD-1a instead of a HUD-1 Settlement Statement?**

**A:** No. While the HUD-1 is not required for all real estate transactions, HUD does not object to the use of the HUD-1 in transactions which its use is not legally required.

**Q: What deductions are approved on the HUD-1?**

**A:** Please refer to the HUD-1 Guidelines for a detailed list of allowable and non-allowable deductions.

**Q: Are there deductions Financial Freedom will not accept?**

**A:** Financial Freedom has a list of expenses which will not be allowed to be deducted from the sales proceeds. Please review the list for specific deductions. See the HUD-1 Guidelines for details.

**Q: Can I rename an unapproved deduction so it can be paid?**

**A:** No. It is not possible to name every deduction which will not be accepted. The list provided on the HUD-1 Guidelines will provide general terms for the types of expenses which will not be considered.

**Q: What if I submit a HUD-1 with deductions which are on the list of unapproved deductions?**

**A:** If any of those costs appear on the HUD-1 settlement statement as deductions from the sales proceeds, the offer will be *denied without further review*. It is recommended the HUD-1 be reviewed for these deductions and any necessary changes be made prior to submitting a complete short sale packet.

# Short Sale Frequently Asked Questions

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**Q: What if there is an expense that is not typically approved by Financial Freedom which is not on the list of non-reimbursable deductions either, like a local ordinance or mandated fee?**

**A:** All deductions will be reviewed when accompanied by supporting documentation showing it is a seller's expense and the cost.

**Q: What type of documentation will not be accepted as supporting documentation for deductions?**

**A:** Financial Freedom will not accept any part of the purchase agreement/sales contract, nor will we accept a letter from the individual/company requesting payment as supporting documentation to justify any expense (invoices excluded).

**Q: What closing costs will HUD approve as deductions on FHA insured loans?**

**A:** HUD does not dictate what closing costs may be deducted from the proceeds, but rather controls only what may be reimbursed through the claim process. It is Financial Freedom's policy to not approve deductions which will be denied by HUD on a claim.

**Q: The water/sewer bill is tied to the property; if unpaid the buyers will become responsible. Will Financial Freedom consider this as a deduction from the proceeds?**

**A:** Utilities are the responsibility of the borrower or their estate and cannot be considered deductions from the proceeds unless it is a recorded lien against the property. To consider the deduction you will need to supply a copy of the actual recorded document showing the recording stamp. There is no guarantee of acceptance. All deductions are subject to approval.

**Q: How do expenses not accepted by Financial Freedom get paid?**

**A:** Negotiations regarding costs are between the buyer, seller and their representatives. We do not dictate what costs are paid, only which costs may be deducted from the proceeds of the sale.

**Q: Who handles the lien release, and should I charge for it?**

**A:** Financial Freedom will handle the lien release. This cost should not be charged to either buyer or seller. For FHA insured loans, Financial Freedom will notify HUD of the satisfaction so they may prepare their lien release documents for recording.

**Q: An FHA insured loan has two liens, one from Financial Freedom and the other from HUD. Are there two payoffs?**

**A:** One payoff satisfies both reverse mortgage liens. When the loan has been successfully paid, we will notify HUD of the satisfaction so they may prepare their lien release to be recorded.

**Q: Is Financial Freedom the seller?**

**A:** No. Financial Freedom is the servicer of the loan, not the seller.

# Short Sale Frequently Asked Questions

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**Q: The purchase agreement is legally binding, why won't Financial Freedom honor the purchase agreement?**

**A:** The purchase contract is an agreement between the buyer and seller. Since Financial Freedom is not the seller, we can neither approve nor deny the contents of the contract.

**Q: How long is an appraisal valid?**

**A:** On FHA insured loans, appraisals are valid for 120 days. For non insured loans, it will be at the investor's discretion whether to accept an appraisal past 120 days. If an appraisal is necessary, Financial Freedom will order an appraisal using the contact information on the Short Sale Checklist.

**Q: The buyers appraisal came in at less than Financial Freedom's appraisal, can we use the buyers appraisal?**

**A:** No. To make a determination on the short sale, Financial Freedom must use a current interior appraisal ordered by our company through a vendor. Using a vendor keeps Financial Freedom from having direct contact with the appraiser, thus eliminating any possibilities of swaying the appraiser's opinion and ensuring it is an unbiased third party opinion.

**Q: An inspection was done after the appraisal and show repairs issues which we feel lowers the value. Is there anything we can do?**

**A:** Since there is no way to determine whether the items noted in an inspection were present during the appraisal, it cannot be used to dispute the value. It is recommended that all inspections be done prior to an appraisal and the information be made available at the appraiser's request during the appraiser's visit.

**Q: Will I receive a refund, if the net proceeds are more than the approved amount?**

**A:** No. Any additional funds are to be remitted for Financial Freedom and applied to the outstanding balance, unless the loan is paid in full.

**Q: Do you accept personal checks towards payoff funds?**

**A:** No, only certified funds will be accepted to pay off a loan. All payoff funds must be in one of the following forms: Cashier's Check, Bank Certified Check, Title Company Check or Attorney's Escrow Check. All other forms of payment will be returned and the payoff will not be processed.

**Q: There are 10 spaces to enter my loan number on the documents in this packet. What if my loan number is less than 10 digits?**

**A:** Loan numbers are 10 digits or less. Fill in the available numbers and leave the rest blank.

# Short Sale Frequently Asked Questions

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**Q: How long will it take the lien to be released from my property after I have paid off my loan?**

A: Financial Freedom complies with state requirements for lien release/satisfaction and will send the documentation for recording within the required time. However, the actual recording of the lien release/satisfaction is performed by the county, in which the secured property resides. Financial Freedom has no control over the counties processing time.

**Q: Where do I remit the payoff funds?**

A: Please ensure that you have a valid short sale approval before you remit the payoff funds. Please include your Financial Freedom loan number with the payment, and remit the payoff funds to the below address:

**Financial Freedom  
Attention: Payoff Lock Box  
2900 Esperanza Crossing  
Austin, TX 78758**

**Q: Can I do a short sale if the loan has not been called Due & Payable?**

A: Yes. Short sales may be considered, but the guidelines may differ. FHA insured loans will not allow expenses to be deducted from the sales proceeds and require the sales price to be 100% or more of the appraised value. Non FHA insured loans will have different guidelines.