

## **Short Sale Overview**

When housing prices in many parts of the country were booming a couple of years ago, there wasn't much national attention given to short sales. But with the current sub prime debacle and increasing mortgage delinquencies, many people are wondering if the short sale process is the best way to avoid foreclosure.

Basically, the definition of the short sale process is when the lender of a property allows the property to be sold for less than the amount due on the mortgage loan.

The obvious benefit to the short sale process is that it allows the seller to avoid the credit report damage associated with a foreclosure. A foreclosure can stay on your credit report for up to 10 years and can take an emotional and financial toll on you and your family.

But the pitfalls of the short sale process should be considered as well. The IRS may consider any debt forgiveness as taxable income, resulting in a tax liability. In addition, lenders may pursue a borrower for the deficiency balance (the difference between the amount owed and the amount paid), and may even require the seller to sign a promissory note at closing.

In some cases you may be able to avoid taxation if you can prove you are insolvent and file bankruptcy. But if this is unsuccessful, and you are faced with a tax liability resulting from the deficiency amount, it may make more financial sense for you to let the lender foreclose.

Do your homework and consult with trusted professionals to help guide you to the best decision for your situation!