



# A Homeowner's Guide To Resolving Distressed Property Issues



LivingLocal Realty  
Office: 612.217.4663  
Email: [Realtor@LivingLocalRealty.com](mailto:Realtor@LivingLocalRealty.com)

“Let me introduce myself and explain why I've created this FREE report to give you the information you need for resolving Your distressed property issues!”

Dear Homeowner,

How to deal with a tax lien, notice of default or even a notice of sale can be confusing. Why? Because you're bombarded with misleading information, confusing claims, and bad advice from people who aren't accountable or responsible to you for the advice they give.

How do you find solid, practical advice to help you decide what steps to take when dealing with these stressful issues? **You start by reading this free report.**

I'm providing this resource so you may avoid some of the biggest pitfalls I see homeowners make every day. In this fact-filled report, you'll discover the amazing secrets I've used to assist my clients in making the right choices when dealing with confusing issues.

What I'm going to share with you isn't theory. My clients and I have tested it. In this simple, yet profoundly powerful report, is a compilation of ideas I've discovered over the years.

**With this information, you will discover how to find support as you tackle the property issue you now face.**

And, if you have any questions about the information in this report, send me an email at [Realtor@LivingLocalRealty.com](mailto:Realtor@LivingLocalRealty.com). or give me a call at (612) 217-4663. I've dedicated my business to helping people just like you.

Warmly,

LivingLocal Realty  
LIC #40278726



## Are you facing losing your home due to financial difficulties?

This material is being provided specifically for homeowners who are facing the possibility of losing their home due to difficulties in keeping current with their mortgage payments.

The information presented is done so with the understanding that although every effort has been made to ensure accuracy, we recommend all legal or tax related decisions be made in consultation with the appropriate professionals.

Regarding the guidance needed when it comes to real estate related decisions such as home valuation, home price trending, sales, rental, staging, short sale, or overall marketing strategies, I am qualified to provide you with assistance and strategic real estate related counsel.

### **The reason this guide is being made available exclusively for homeowners is for two reasons:**

1. While there already exists a great number of guides, books, and seminars devoted to educating buyers and real estate investors about foreclosed or distressed property opportunities, sadly there is far less professional focus devoted to strategically equipping homeowners with available options.
2. There is a natural connection which exists between real estate professionals who serve local communities and the local resident homeowners. Understandably, it is only natural for community conscious real estate professionals to care about the interests of those already living in and owning real estate within one's local community, especially when such homeowners are experiencing challenging times.

The role of your real estate representative should not be confined to proposing just one solution, that being a short sale. Some real estate professionals take pride in specializing in short sales and are quick to offer this as the solution of choice. This is understandable given how the short sale process results in the sale of a home as opposed to other non-sale alternatives, thus typically ensuring compensation for their professional involvement. I encourage you, however, to use this guide to carefully review your options and, should you determine after carefully

evaluating your options, that a short sale is in your best interest, then of I am prepared to help you through the process.

## Reviewing your options

If you are behind in your mortgage payments, you are not alone. Essentially, none of us are ever fully protected from the possibility of financial duress. Indeed, medical bills, under-employment or loss of a job, divorce and death are among the many causes of mortgage default.

It is often not the property that is distressed, but rather the mortgage. Accordingly, if you are confronted with the prospect of losing your property due to your present ability to keep current with your mortgage payments, you need to be aware of your options and subsequently decide the best course of action.

### Options to consider:

- Traditional Sale: Yes / No
  - Rent Property: Yes / No
  - Repayment Plan: Yes / No
  - Forbearance Agreement: Yes / No
  - Loan Modification: Yes / No
  - Assumption Agreement: Yes / No
  - Deed in lieu of Foreclosure: Yes / No
  - Short Sale: Yes / No
  - Foreclosure: Yes / No
  - Bankruptcy: Yes / No
  - Other:
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Before reviewing all options, it is important to first review an option which should always be properly identified and avoided.

# Distressed property scams

Look out for anyone claiming or wanting the following:

- A. Anyone who instructs you to make mortgage payments directly to them.
- B. Anyone who asks for a fee up front. Government agencies do not charge for counsel or advice.
- C. Anyone who claims (but cannot prove) they are associated with a government program.
- D. Anyone who tells you to stop making mortgage payments.
- E. Anyone who asks you to sign over a deed to them, without having an attorney first review it.

For anyone you suspect is involved in a scam, immediately contact the Federal Trade Commission.

Government agencies and programs which have been established to assist homeowners going through homeownership struggles:

USA.gov: A government website of available programs

HARP: Homeowners Affordable Refinance Program

HAMP: Home Affordable Modification Program

Your first step is to become as informed as possible and then reach out to the appropriate parties, including your lender, government agencies, attorney, and real estate professional. Do not succumb to the influence of anyone without first developing a fundamental understanding of the pre-foreclosure and foreclosure process, including what is involved in preventing a foreclosure when possible.

## Know your options

### **Traditional Sale**

There are numerous examples of homeowners who, even though they had equity, allowed their property to go into foreclosure because of a loan default when they could have sold their property and left with a profit and uninjured credit rating.

Before eliminating this option consider the following:

- A. Would you prefer to move?
- B. Do you have a way to borrow, for a short period of time, enough money to pay the mortgage until you sell?
- C. Can you sell during the mortgage default period and have the proceeds pay back your mortgage debts and even make a profit?

### **Rent Property:**

- A. Is it possible to rent your property at a price that will pay for the mortgage for a period of time while you move in with family or friends until your financial situation improves?

B. Is it feasible to rent part of your property to alleviate mortgage payment pressure?

**Repayment Plan:**

This is where your lender might agree to spread the past due amounts over a specific amount of time.

During the repayment period a portion of your outstanding payments are added to each mortgage payment. When this period is completed, your mortgage payments resume to the normal and underlying agreement.

**Forbearance Agreement:**

This potential agreement with your lender provides short-term relief. Essentially how this works is the lender agrees to either reduce or suspend the mortgage payments for a certain amount of time and agrees not to initiate a foreclosure process during this time.

You, the borrower, must agree that after the forbearance period, where payments are either suspended or reduced, you will catch up on all suspended or reduced payments. This differs from a repayment plan where payments are not suspended or reduced.

**Loan Modification:**

The government's Home Affordable Modification Program (HAMP). This is a process where the terms of a mortgage are modified by agreement between the lender and borrower.

Since the government (after 2007) now contributes money to the lender who participates in this process, lenders now often agree to:

- A fixed and lower interest rate
- A lower loan payment
- Extended terms
- Reduction in the loan principal

**Assumption Agreement:**

This outcome refers to an undertaking of your debt obligation by another. This becomes a legal contract that creates an agreement between two parties, where the new party now agrees to assume the responsibilities of the mortgage.

FHA mortgages are where this is most common. Before 1986, mortgage assignments/assumptions were executed without any proof of credit worthiness, but mortgages executed since then now require credit approval.

This option works only when the next mortgage owner lives in the home as a principal residence. This process is particularly appealing when there is a lower interest rate already in place.

**Deed in Lieu of Foreclosure:**

This is a deed instrument in which the borrower conveys all rights and interests in their property to the lender to avoid a foreclosure and satisfy a loan that is in default.

Lenders are willing to do this when they believe the cost of re-possessing the property is greater and more inconvenient than simply taking over the property in a far less public and eventful way. There is much more to this, such as circumstances surrounding loan to value ratio, present market, and salability of the property, along with other considerations, which are factored in.

**Short Sale:**

A short sale is a sale of a property in which the funds from the sale are less (fall short) than the balance owed on a loan secured by the sale of the property.

Each lender is different, therefore, carefully review the following related points:

- A. Lenders usually ask for a hardship letter to be included as part of the short sale packet presented to the lender.
- B. Ask your real estate agent or attorney for examples of effective short sale packets and hardship letters. Obviously, you will not have to invent your hardship but how it is conveyed can make a difference.
- C. You should ask the lender what they require in their short sale packet.
- D. Ask an accountant what the tax implications are regarding a short sale.
- E. Research the Debt Forgiveness Act of 2007.
- F. Ask the lender if they can still proceed with a foreclosure if they agree to a short sale.
- G. Multiple liens on your property can adversely impact whether you are approved for a short sale. Ask your attorney for details.
- H. It is important both you and your real estate agent demonstrate to the lender you are both completely dedicated to the home being sold for as much as possible. This will determine whether your short sale gets approved. Additionally, if the lender senses your agent is only interested in causing a quick sale for a "distressed property," this will discourage the lender from agreeing to the sale. Your agent must be able to convince the lender they will provide world class marketing and not stigmatize the sale by advertising it as a short sale or distressed property.
- I. Ask your agent who they represent, you or the bank, and who will be responsible for the sales commission.
- J. Ask your attorney for the credit impact between either a short sale or a foreclosure or bankruptcy.
- K. Ask your attorney if there will be a deficiency judgment (where you end up responsible for a shortage from the sales proceeds).
- L. Ask your attorney if you are more likely to be responsible for a deficiency judgment in a short sale or a foreclosure.

**Foreclosure:**

There are three stages of a foreclosure:

1. Pre-auction
2. Public auction
3. Lenders who take over the marketing and sale of the property

The pre-auction stage is where the lender has declared you in default and this becomes publicly posted and listed.

During this period, many unscrupulous parties will reach out to homeowners offering to negotiate with

your bank or claiming they can stop the foreclosure by helping you file for bankruptcy. These individuals, some of whom are scam artists, will attempt to get financial information over the phone, charge you a fee, and even ask you to sign your title over to them.

The public auction stage is when, even if a property sells, there may be an amount of time where the homeowner can get their property back by making payments in full for mortgage and all debts.

The third stage of a foreclosure is where lenders, if they are not satisfied with the outcome of the auction sale, take on the marketing and sale of the property they now own themselves. This is referred to as Real Estate Owned (REO) sales. The real estate owned departments of banks manage this process.

Because this is a lengthy and costly process and the government offers financial incentives, most lenders are agreeable to many of the options outlined in this educational resource.

The more you understand the impact a foreclosure or bankruptcy has on the lender, the more confident and aggressive you can be regarding your many options (including those options not covered in this report).

### **Bankruptcy:**

Given the enormous and holistic implications of a bankruptcy, you should contact an attorney and learn how either a Chapter 7 or Chapter 13 Bankruptcy can impact your ability to remain in your home.

## Why homes sell

The only satisfactory and professional explanation for why homes sell (or don't sell) can be traced back to the iconic Four P's of Marketing – a universally accepted principle in the greater world of selling and marketing.

While you may often hear that price is the only factor in selling a home, the reality is proper marketing sells the home and pricing is only one piece of the overall marketing strategy.

## The 4 P's of marketing

Price, Product, Placement and Promotion combined, determine the outcome of whether a property sells or doesn't sell.

Most professional real estate agents are familiar with the Four P's of marketing and the agent you choose should be dedicated not only to getting the home sold, but also to selling the home for more. A good marketing strategy will focus on the following:

- Portability – mobile marketing
- Personal – finding the right buyer for your home
- Proximity – tapping into the local buyer prospects who are already sold on the area, while also reaching out to global buyers to maximize exposure
- Presence – ensuring the lifestyle benefits the home and area offer are properly showcased online and throughout all promotional marketing material

## Key features to showcase when marketing my home

This worksheet will give your real estate agent valuable information to help them showcase your home and highlight key features and benefits in the marketing campaigns. Supply as much detail as possible and they will know which items are best to use to add value and create excitement.

1) What I/we have most enjoyed about living in this community:

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2) Recent upgrades and improvements:

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3) Home features I/we use most:

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4) What I/we will miss most about living here:

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5) The order the photos should be taken to give the buyer the best sense of the homes style:

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## Vendor Assistance Request Form

Please refer me to a vendor who can assist me with the following:

- Plumbing issues
- Painting (interior)
- Painting (exterior)
- Carpeting or flooring
- Electrical issues
- Yard work/landscaping
- Hauling away trash or other used items that are no longer wanted
- Termite work
- General repairs
- Installing smoke detectors/carbon monoxide detectors
- Staging
- Moving

# Upgrades that boost your property value

- 1) Curb appeal is critical. You don't have to spend a fortune to give your home a facelift.
- 2) Kitchens and bathrooms can be a turn on or turn off. A complete remodel is not usually necessary and may not be a wise use of funds. Anything you can do to update these rooms on a budget such as replacing an old appliance, changing an old toilet or upgrading the counter tops, will make a difference.
- 3) Declutter and then declutter some more. Make your home decor as lean and clean as a model home. In fact, taking a walk through a few model homes could give you some simple staging ideas to implement in your own home.
- 4) Remove wallpaper and brighten up dark rooms with light colored paint. A neutral palette is best so the buyers' can visualize their furnishings in the house.
- 5) Fix obvious defects such as broken tile, a torn screen, cracked driveway, etc. Buyers may feel these minor flaws are hiding bigger issues, or they may ask for significant discounts for repairs that won't cost you much to do.
- 6) Clean or replace carpet and remember to keep the color neutral. If your carpet is bad and there are hardwood floors underneath, you may be able to get away with stripping the carpet and cleaning up the floors. Even if they aren't perfect the buyer may prefer it to dirty carpet.
- 7) Ask your realtor to begin at the front curb and complete a curb-to-curb walk-through with you. They will be able to best advise you as to which improvements are a must-do and which improvements would be an over-do for your market conditions and price point.

## Outdoors

- Keep the lawn mowed; trim hedges
- Store hoses neatly; be sure sprinklers don't water walkways
- Repair gates, fences and sidewalks
- Remove or replace dead/dying plants
- Add color with blooming flowers
- Clear yard of all debris
- Sweep front walkway
- Paint, fix, or wash railings, storm drains, screens and doors

## Garage

- Keep the floors clean and swept
- Store or neatly arrange all items
- Show maximum storage space

## Bathrooms

- Polish the floor, mirror and fixtures
- Repair grout and caulking
- Repair running toilet or faulty plumping

## Closets

- Replace burned out light bulbs
- Hang clothes neatly; store shoes in boxes
- Don't overcrowd; it suggests inadequate storage space

## Kitchen

- Clean appliances, cabinets and floors
- Organize cabinets
- Sink should be spotless
- Clear and clean countertops
- Repair faucets and appliances

## Overall

- Wash windows
- Quick once-over with vacuum
- Flowers in main rooms
- Play soft music and add air fresheners
- Keep pets out of the way
- Oil hinges, tighten knobs and faucet

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For real estate advice pertaining to financial, legal, or tax related information, please contact a professional. The practice of real estate representation may vary by state. Ask your real estate agent for agency information pertaining to your state and company.

## Your next 5 steps

### **Step 1: Make a Commitment to Act.**

I can't tell you how many times people have requested this report and then said to me, "If I would have known what you just showed me, I would have avoided so many problems!"

I've shared a few simple ideas in this report. Ideas, which if acted upon, could prove to be worth thousands of dollars when selling your home. But these ideas are only as good as the action put into them. Decide to act right now.

### **Step 2: List Your Objectives.**

List what your goals are. What is your primary goal? Stay in the home? Rent it or sell it quickly?

What do you expect from the agent you hire? How often do you want them to communicate with you? Do you want an open house done? If so, how often do you expect one?

### **Step 3: Contact an agent who knows how to deal with a distressed property.**

Of course, I'd love to be the agent you choose to work with, but if not, I've given you the questions to ask your potential agent.

If you would like additional information, please reach out to me at (612) 217-4663 or via email at [Realtor@LivingLocalRealty.com](mailto:Realtor@LivingLocalRealty.com).

### **Step 4: Ask for a reference if leaving the area.**

If you are leaving the area, ask your agent for a reference to an agent in the community where you are moving.

### **Step 5: Act.**

Reach out to me and let's talk about how to successfully navigate through these difficult times. Let's work together!

# Glossary of Terms

## A

**Acceptance** – The time at which an offer to purchase is accepted. The fact that it was accepted must be relayed to the person that made an offer for all parties to be bound to the contract.

**Amortization** – The repayment of a loan over time. With each payment, there is a reduction of both principal (the original amount borrowed), plus the interest.

**Appraisal** – A professional determination of value. Mortgage companies usually require an appraisal of the property by a licensed, disinterested party before agreeing to loan money on the property. Methods of determining value may be based on many things, such as comparable sales in the area, the cost approach, the income approach, or the highest and best use of the property.

**As-Is Condition** – Disclaiming any warranties or representations regarding the condition of the property.

## B

**Back-Up Contract** – A contract or offer that is in a secondary position to an already existing contract. This contract shall be elevated to the first position if some condition in the first contract is not met. If the first position contract is consummated, then the second contract is no longer in effect.

**Bridge Loan**, also called a **swing loan** - A short term loan used to transition in between paying off an old loan, and the inception of permanent financing. This is often used to build or purchase a new home, when the previous home is still owned, but is up for sale. Once the previous home is sold, and the owner receives the proceeds from that sale, permanent financing is usually obtained.

## C

**Certificate of Title** - A statement verifying who has the rights and responsibilities of ownership in a property. This may be ascertained by a public record search but does not guarantee that any other parties may not stake a claim to the property. Title insurance protects against claims that may arise against the title.

**Clear Title** - Ownership that is free of liens, defects and encumbrances, beyond those which the owner agrees to accept.

**Closing** - The transaction where title passes from seller to buyer and the seller is paid. A settlement statement shows all costs incurred and gained by both parties.

**Closing Costs** – The expenses incurred in obtaining the property and transferring title to the new owner. This may include, but is not limited to attorney's fees, points, title charges, credit report fee, document preparation fee, mortgage insurance premium, inspections, survey, appraisals, prepayments for property taxes, deed recording fee, and homeowners insurance.

**Commitment Letter**, also known as a **loan commitment** - A written offer by a lender to make a loan by a particular date under certain conditions. A buyer has more clout with a seller if they submit a letter of loan commitment from their lender to the seller at the same time they submit their offer to purchase to the seller than a buyer who has not even applied for the loan yet.

**Contingency** - A condition that must be met before a contract is legally binding, or before a sale is to be completed. The contingency provides an out or an escape from performing if the condition is not met.

**Conventional loan or conventional mortgage** - A real estate loan, which is neither insured by the government agency FHA nor guaranteed by the Veterans Administration. Typically, subject to the terms of their institution, the conditions may be more flexible, as the lender is not required to follow federal guidelines. The lender looks to the credit of the borrower and the security of the property to insure payment of the debt.

**Counteroffer** - If the receiver of an offer makes any changes to the original offer, it is considered a rejection of the initial offer and becomes a counteroffer.

## D

**Deed of Trust** - Some states use a deed of trust to convey property being held as security for a loan. This document is then conveyed to a trustee and can be used to sell, mortgage or subdivide the property.

**Deposit – (also called Earnest Money)** - A good faith deposit of a sum of money offered by the prospective purchaser at the time of the offer to purchase. These funds are typically deposited into an escrow account and held until the real estate closing takes place. At the closing, the buyer is most often given credit for the earnest money that has already been paid, but in some cases, it may be returned to the buyer at closing. These funds may also be returned to the buyer in some cases if the contract on real property doesn't go through to a final sale.

## E

**Earnest Money (also called Deposit)** – Funds given by the buyer and held in an escrow account until the real estate closing. In some cases, these funds are refundable if the loan fails to close, but if the loan does close, the purchaser is given credit at closing for the earnest money.

**Escrow** – A neutral third party holds other people's funds in a secure account for future use. An earnest money deposit is held in a real estate broker's escrow account. It is the broker's account, but he is holding the buyer's funds in the account for safekeeping until closing. In the case of a mortgage, the total monthly mortgage payment may include funds to pay for future taxes and insurance paid in addition to the principal and interest. This escrow is held by the lender until taxes and insurance are due, at which time the mortgage company pays the taxes and insurance on the borrower's behalf. After the taxes and insurance are paid, the lender may re-adjust the total monthly payment to insure sufficient funds for future escrowed items.

**Exclusive Agency Listing** – A written agreement between a property owner and a real estate broker giving the broker the exclusive right to sell the property for a specified period and at a specified fee. Agents whose licenses are held by a broker may sign on their broker's behalf.

## F

**First Right of Refusal** - A legal right by an individual giving that person the first opportunity to purchase or lease real property.

## H

**HUD -The U.S. Department of Housing and Urban Development.** This is the agency responsible for enforcing the federal Fair Housing Act. Among HUD's many programs are urban renewal, public housing, rehabilitation loans, FHA subsidy programs, and water and sewer grants. The Office of Interstate Land Sales Registration, the Federal Housing Administration (FHA) and the National Mortgage Association (GMNA) are all under HUD.

## L

**Loan Commitment** - A lender's written approval granting a specific loan amount, conditions, and a set time limit for closing the loan.

**Loan Origination** - The process of applying for a mortgage loan.

**Loan Originator** - The person who assists borrowers in obtaining their new loan.

**Loan to Value** - The ratio of the amount of the loan divided by the value or sales price of the home.

**Lock In** - An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a particular cost.

## N

**Non-Conforming Loans** - Loan amounts that exceeds FNMA's \$417,000 (as of July 2006) maximum lending.

## P

**Possession** - The buyer occupying the property that is purchased or a tenant occupying the property that is leased. In a real estate sale, possession is rarely granted prior to closing when the seller receives their funds.

**Prequalification** - Having a mortgage lender advise that debt ratios and credit report plus other factors show a borrower qualifies for a specific loan amount before signing a contract.

**Purchase and Sale Agreement** - The contract between the buyer and seller stating terms, conditions, sales price and other pertinent information about the property being purchased.

## Q

**Qualify** - To meet the guidelines based on debt, income, and credit worthiness.

**Qualifying Ratios** - Comparing a borrower's income to their proposed monthly housing expense. Also comparing their income to monthly housing expense added to all the borrower's other debt obligations.

**Quit Claim Deed** - A document by which one property owner releases his or her claims, rights and interest in a particular property.

## R

**Rate Lock** - When the lender issues a written commitment to a borrower as to a specific interest rate for a specific amount of time.

**Real Estate Owned - (REO)** - Real estate that is owned by a bank or financial group. Usually a result of their borrowers defaulting on the loan and the subsequent foreclosure of the property from that buyer.

**Right of first refusal** - The right to the first opportunity to lease or purchase real property. For example, apartment tenants might retain the right of first refusal when their units are being converted to condominiums.

## S

**Sweat Equity** - The equity earned as a result of the owners' labor in upgrading and improving the property.

## T

**Tax Lien** - A lien against a property for unpaid taxes.

**Ten Thirty-One Exchange - (1031 Exchange)** - A means of deferring capital gains taxes on real estate exchanges for like kind properties. This is allowed under the U.S. Internal Revenue Code, Section 1031.

**Term** - The length of time it will take to pay the mortgage in full.

**Time Limit of an Offer** - An offer should include a specified time period during which the other party must decide to accept, reject, or counter the offer.

**Title Company** -The company that, for a fee, checks and insures the title against liens, ownership claims, and title problems.

**Title Insurance** - An insurance policy that may be purchased to protect the new owner from any liens or clouds against the title. In order to issue title insurance, the issuer will perform a title search in the county records. Since title is searched at the time of closing, title insurance is usually less expensive at the time of closing, rather than if a buyer called the title company at a later time as an additional title search would have to be performed prior to issuing the insurance.

**Title Search** - A review done by the title company's representative of all records available to determine if the title is indeed clear of all liens and claims.