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"Don't let the real estate crash destroy your family's financial future.
With this eBook you will learn how some people are saying
ADIOS *to their* ***LENDER*** *and STARTING a new life again."*

~Fernando Herboso 2010

You may have realized that your underwater mortgage together with some personal hardships have put you in a unique situation.

This eBook will help you explore a few options that depending on your personal circumstances may help you out of the jam you are presently in.

Lets be clear from the very beginning, I'm not advocating you neglect to pay your mortgage or simply walk away. I am advocating that you sit down and see all the options you have in front of you and removing any emotional ties to bring the right solution to your personal financial problems. Always consult with your attorney and accountant for specific questions about your finances.

This eBook was born after my experience participating in over 150 listing presentations with homeowners in different levels of financial situations, it's not my job to play moral police. My job and my passion is to help homeowners in this epically distressed real estate market. Furthermore it's my MORAL responsibility to help homeowners avoid a foreclosure.

After seeing the stress, the anguish and the tears of my would be clients, I felt that they needed this information more than ever. . .

I want to turn the light on the subject to help others see clearly what they face and what the future may hold for them

It is a fact that today more and more homeowners with “underwater” mortgages are simply just walking away, even if they can afford the payments. With the market values for their houses that continue to plunge below the debt principal they owe, with no hope in sight, letting these underwater properties fall into foreclosure has become more popular and more widespread. Of course, why would anyone want to continue throwing money away to feed a continuous decreasing of value on their properties?

While defaulting on an upside down mortgage purposely sounds like a huge step for anyone, bottom line come to one single question:

Even in the worst possible scenario a foreclosure could affect you as much as 10 years of your life.
If your property's value catches up with your mortgage 10 to 15 years from now, you need to ask yourself some hard questions.. .are you better off with a foreclosure rather than sticking around for things to get better?

What is an Strategic Default?

The definition for an strategic default is simple. .it is the decision by a borrower to stop making payments defaulting on their mortgage payments despite having the financial ability to make those payments.

This usually occurs after the homeowners suffers a substantial drop in the house's price such that the debt owed is considerably greater than the value of the property. When this value is expected to remain relativity the same for the foreseeable future, borrowers become “walkaways”

This essentially will end having a mortgage “underwater”

Lets get something clear now:
If you are considering an strategic default on your property but yet, you are borrowing money to meet your bills every month. .
I got news for you,

That is not an strategic default. **.you should be seeking a survival solution before you drain all your savings and be left with nothing!**

A well know tactic nowadays is the Loan Modification when homeowners get in trouble.

Loan Modification:

The federal government is pushing lenders to lower mortgage payments to help homeowners stay in their homes, but borrowers and housing counselors say the modification process is not an easy thing to do, despite governmental efforts. They complain of lost paperwork, endless hours on hold waiting for someone to speak to, un-returned calls and unexplained rejections.

What is the homeowner to do in this situation?

In some cases homeowners were victims from predators after paying thousands of dollars to loan modification companies and after securing their fees; they simply just ignored their clients with very little feedback, some of these unfortunate homeowners ended up losing their homes to a foreclosure.

Falling into the trap of a Loan Modification. .

For those holding out hope that the federal government has any sort of solution to the foreclosure problem need look no further than the latest report published by the federal government. It is a complete failure.

While the number of active trial modifications continues to increase , the number of loans that fall out of the modification programs increases even more…which means the program is a failure.

At what expense?

As of May 2010 according to a report from the government there were 1,675,238 HAMP applications. Only $340,459 homeowners were accepted into the program. Out of those, 6 months later nearly 50 % of them dropped out; leaving a little over 12% grand total of homeowners helped.

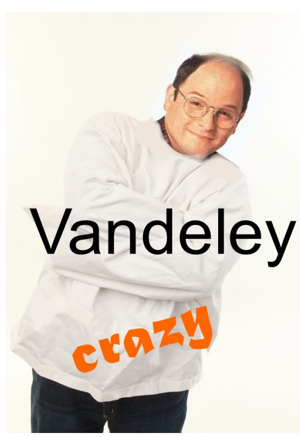
Only time will tell form those 12% homeowners helped, how many will still be around a year later.

What was the reason?
Very simple,
A loan modification without a reduction of principal is just a disguised delayed foreclosure for the homeowner.

The HAMP program had good intentions but it failed helping American homeowners that find themselves with their mortgages underwater.

How can the government and these lenders expect homeowners to sign a loan modification that could only benefit the lenders themselves. . . essentially increasing the principal of their loan to a much higher level, while their homes still are dropping in value month after month.

That is madness. . . . . .



This is exactly why so many people are dropping off loan modifications.

What to do now?

Your mortgage is underwater and you have a financial hardship. .

You may be involved with a loss of a job, divorce, arm loan adjusting, or simply find themselves struggling month after month keeping your lender happy. . .while you slowly lose control of the little savings you had.. disappearing.

This situation is disturbing in any case. The fact is that in the beginning of your home purchase you had many dreams and life fulfilled goals, You never suspected that the value of your property would cause the bottom to fall out and put you in the situation you find yourself in.

There is some good news. You will survive, I've seen it many times already. This is the time where your faith gets tested and you know that you and your family will be OK. But, now you ask. . what went wrong?

In a major newspaper publication in the Washington Metropolitan area, I read that nearly one-third of homeowners have experienced being in a underwater mortgage. Most of them are dutifully continuing to pay their mortgages, despite some substantial financial incentives for walking away from them.

A family that purchased and financed a home for $500,000 in 2006, they find themselves still owing most of that mortgage, even though the home is now worth only $300,000. The same family could rent a similar home for as much as half their monthly mortgage payment, substantially saving them thousands of dollars a year. .and adding hundreds of thousands of dollars over the next decade.

Most economic indicators show that house values at best will be stagnant in the next few years. If that is the case, even in a worst case scenario. In a foreclosure, the homeowner will be much better off renting for ten years and then purchase again as oppose to sacrificing for ten years and paying for a home that may only break even after ten years later.

The morality issue:

Most homeowners may keep paying because they think it's immoral to default. This view has been reinforced by government officials like former Treasury Secretary Henry M. Paulson Jr., who while in office said that anyone who walked away from a mortgage would be "simply a speculator — and one who is not honoring his obligation."

May I remind you that Mr. Paulson himself was once an investment banker that dealt strictly in speculating investments.

Do you see the irony of this? Does this really come down to a question of morality?

All this companies that Mr Paulson work for or invested with, have an obligation to its shareholders.

The banks themselves, have found in a terrible position, they made a HUGE mistake when they started opening the flood gates for mortgages to anyone that requested it.

In another words. . they made a mistake . .
. .and since they are accountable to their shareholders, they seek bailouts from the Government to ease the impact of these past mistakes.

No one questioned their morality when they did this. . .

In the same playing field, why is it that a homeowner that made a mistake in buying a property at the wrong time can not make the same decision as well?

My contention is that a homeowner is the same as a bank, A homeowner has to make decisions for the best of their shareholders. .in a homeowners case. .

Their shareholders are his own family members.

As we saw with the AIG deal in 2009 this is only after the fact, Goldman Sachs recovered 100 cents on the dollar for all their bad bets courtesy of Uncle Sam. Can you walk up to the Fed and ask for the 30 percent you lost on your home purchase?

All loans are initiated by the lenders with one single thing in common. To maximize their fees and interest rates at the expense of the borrowers. . . . **and taxpayers!**

This morality argument is especially weak when you add a hardship to this equation.

A lot of borrowers are going trough their own financial turmoils. They are cashing in their 401k's, their retirement nests just to keep on paying for their underwater mortgage. They have also raided their kids college education to maintain the same living standards they are accustomed to.

In worst cases I know of homeowners that borrowed money from their families and max out their credit cards so they can continue to pay for their mortgages.

An even bigger dilemma for these homeowners is the emotional cost of giving up one’s home and moving, the perceived social stigma in defaulting.

The stigma of a foreclosure has been slowly eroding as more and more families take a hard look into their own situations.

Let me give you one example about one of my clients. .

It all begun with a loan modification application that has dragged and dragged for months. .
My client was at a point of no return, I have seen this too many times already.
Lending institutions have used bad faith, unfair negotiating and delay tactics against homeowners simply to delay the inevitable.
The argument presents itself. . If a lender is unwilling to negotiate a loan modification in good faith , which I might add includes being treated with respect during the application process, then why wouldn't you have the right to use any and all available defenses to protect your family and get rid of a burden that threatens your financial survival?

Easy question to judge. . . unless you are on those shoes.
My client has spent thousands of dollars and many hours gathering documents and being put on hold or ignored to no avail. .
Their hopes for a loan modification slowly turn out into loan mortification. .

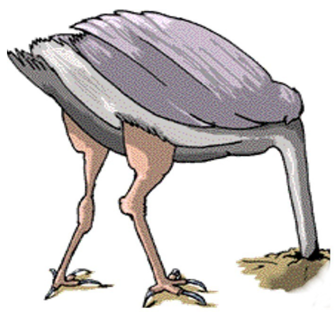
Finally after accepting an offer from the bank giving them a lower interest rate for a short period of time. . They slowly realized that was the same tactic they experienced when they first initially purchased their home!
A variable interest loan.. . Again. ...fool me once, fool me twice. . .?????

Adding insult to injury, their principal owed to the lender was increased to a much higher amount.

To borrow a common phrase used by our brave military personnel during the war appropriately so. . in this case

"Whiskey Tango Foxtrot?

You can not expect homeowner to stick their head in the sand and ignore the real facts during a loan modification. . .



We sold their house in a short sale a few months later.

The deficiency Judgment

I believe that most people who are considering a solution strategically are most concerned about a deficiency judgment they may receive after all is done. Understandable, most people do not want to be chased down for more money by creditors or lenders a few months later after getting rid of their properties.

A deficiency judgment is the difference of what is the NET to the lender after disposing of your property form your original loan amount.

A deficiency judgment can be obtained when there is a deficiency debt.

If you live in Maryland. You are in a re-course state. That means a lender has the right to seek this deficiency judgment against the homeowner.

A lender must file for a deficiency judgment and has up to 3 years to do it after it disposes of the property.

In a short sale, you may avoid a deficiency judgment
In a HAFA short sale, you are guaranteed that the lender will not seek a deficiency judgment against you.

Your taxes after disposing of a property.. . . when using a short sale

The Mortgage Forgiveness Debt Relief Act and Debt Cancellation was signed into law in December 2007 and recently was extended until the year 2012

If you owe a debt to someone else and they cancel or forgive that debt, the canceled amount may be taxable.

The Mortgage Debt Relief Act of 2007 generally allows taxpayers **to exclude income** from the discharge of debt on their principal residence. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualifies for the relief.

This provision applies to debt forgiven in calendar years 2007 through 2012. The exclusion does not apply if the discharge is due to services performed for the lender or any other reason not directly related to a decline in the home's value or the taxpayer's financial condition.

In a nutshell, if your property is your primary residence, more likely this applies to you and you will owe no taxes (.. but consult first)

If your property is considered an investment. .. more likely YOU WIL PAY taxes on any debt cancellation from your lender.

More information should be obtained directly from your accountant.. .taking in consideration your particular financial situation at the present moment.

What are the primary risks of a strategic default – alone?

1. Deficiency debt leading to a deficiency judgment.
2. Lower credit score.
3. The Loss of the home or property via a foreclosure sale.
5. Debt collections tactics, including by mail, letters and in extreme cases even personal visits to the property.

How to eliminate these risks when combining an Strategic Default using the Short Sale Method? . . .

You have better chances for the lender to **renounce seeking a deficiency judgment against you** by doing a short sale in your property if negotiated properly.

My advice for all my clients is to combine this strategy with a short sale.

A lot of homeowners in Maryland have committed a mistake by just walking away from their homes in the hopes that their nightmare has ended.

Nothing can be further from the true.

The lender will take the property but will not stop at seeking a deficiency judgment against the borrower.

Doing a short sale is the method that involves the lender to consider taking a discount in selling your property to get it off their books.

The process of a short sale is extremely stressing and emotionally straining. Before attempting this road you need to discuss your particular situation with a Realtor experienced in short sales.

Short sales are not uniformly equal, even coming from the same bank, the process differs extremely between banks. Some are easier to work with and some are extremely difficult.

In most cases, short sales begin after a failed loan modification.

To involve the bank in the process of a short sale the home owner must first notify this to their lender explaining the situation and describing why the bank should work with them.

. .and then finding a Realtor **experienced in Short Sales.**

A hardship in most cases is required by the bank, although my experience tells me that a hardship is only a formality, I have never got questioned back for a hardship or denied a short sale because my client's hardship was not good enough.

A hardship in my opinion is when you are already late on your mortgage payments. .. . that should be the only hardship that counts.

The most important consideration of all of this is very simple: (read this twice)

Huge difference!

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What happens when you receive an offer for your property when is listed as a short sale?

When you receive an offer your Realtor will help explain the strength of the offer. If it is weak you may want to counter offer. It is your responsibility with the assistance of your Realtor to weed out the offers that you know your bank will reject. You will not want to accept a bad offer that you know the bank will turn it down.

Your Realtor will help you set the listing price according to the most updated comparables on your neighborhood. A good offer would be something close to your listed price. If the offer amount is too low you may end up wasting your time by accepting it. Having a good Realtor that specializes in short sales will come in handy during this time.

Once you have an accepted offer from the bank you will be asked to sign the bank's approval together with an "arms length transaction" form that assure the banks that there is no hidden benefit to you as a seller in the short sale.
The rest of the sale will feel much like an average home sale. In fact, even at the closing table you may not even notice anything about the short sale, only that the sale price is a lot less than your loan amount.

Remember after all it is just a short **sale**. .you are **selling** your property.. .nothing more or less.

Benefits of a short sale vs simple walking away and / or foreclosure

Many people do not understand the benefits of doing a short sale versus allowing simply the home to foreclose.

Doing a short sale will minimize the damage to your credit, and enable your family to get a FRESH START. You could essentially purchase a new home within a couple years or so. .

Allowing your home to foreclose WILL result in maximum devastation to your credit plus you may end up with a deficiency judgment on your hands.

Another reason why you should not just walk away and allowed your home to foreclosure is that a foreclosure will have an impact on your credit rating for up to **10 years.**

Understand that a short sale is NOT the end. **It's an opportunity for you and your family to TAKE CONTROL and WALK AWAY FREE & CLEAR**. A properly executed short sale is simply the most sensible solution when a home is "underwater"

How much does a short sale costs the homeowner?

Fees are built into the transaction and paid for by the lender releasing the note.
As a general rule*, doing a short sale does not cost the seller anything.
Zero out of pocket costs, the seller brings no money to closing.

When we work with my clients, I let them know that I'm in the same boat with them I tie my success to their success.. if I don't bring them the results they are looking for. .we don't get paid.

We negotiate our own fees with the bank to pay.

*In certain cases lenders will not pay late HOA's fees.

If you have any questions about this process of preventing a foreclosure, or you're just now considering it might be a possibility in the near future for you. .even if you've already received a Notice of Trustee sale, contact me today to discuss your options.

(240) 426-5754

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Fernando Herboso, the author of this book is a licensed real estate broker with the Maryland Department of Labor, Licensing and Regulation. He is also licensed in the Commonwealth of Virginia and registered with the Real Estate Board.

Fernando is a member in good standing with the Greater Capital Area Association of Realtors GCAAR.
Certified with CDRS as a Gold Member.

Certified Default Resolution Specialist™ with (CDRS)
America's Home Rescue

Fernando Herboso was also a major contributor in bringing education for Realtors in Maryland and was instrumental for the CDPE organization to come to the Maryland in 2008 "Certified Distressed Property Expert"

Fernando was interviewed by the following News Organizations about short sales and foreclosures in the local market of Maryland

And

WLXE 1600 AM Spanish Radio Rockville Maryland

We are also "Expert"Contributors of Short Sale Information for Realtors and consumers to the following Organizations

www.AdiosLender.com

What our clients say about us. .

"Thank you Fernando and Susan (Team Member)for EVERYTHING! We are so relieved to be out of this mess and to be able to start over again.
It really has taken a load off of our minds and knocked down the stress level A LOT! You were both completely on top of your game (and the mountain of paperwork) which made this entire process go so smoothly. I really cannot believe that it's OVER and everything did work out to our advantage. We knew we were taking a gamble with the short-sale, but we really owe our success to you and your team."
THANK YOU! THANK YOU! THANK YOU!
Amanda & Eric B

"Herboso & Associates did an excellent job of listing my condo and handling the short-sales process for me. Fernando is extremely knowledgeable and took the time to answer all my questions and concerns. He was efficient and took care of all the negotiating with the lender and the buyer.
California Client, A. Nguyen"

Fernando,
Thank you so much for talking to me yesterday. I took your advice and spoke to my lenders. They sent me the papers to do a loan modification, and worked with me in making my monthly payments while the modification is in process.   I was able to just pay the smaller portion this month, and pay back the bigger portion in $200 amounts starting on September 15th.   Even the payback of the bigger will be erased once the modification is done. And she believes for sure after they see what bills are paid that I will definitely get the modification. And that I may end up getting a fixed rate as well. The smaller payback arrangements keeps me out of foreclosure while they are working on the loan - so the stress is better knowing that, even though I still have to make some kind of payments until I get a little relief.
Thank you for being honest and caring enough to care about the person and the circumstances. You could have started the process without the advice - but you didn't. Instead you let me see I have options in keeping my home. I really wanted to run from the house and the whole mess, but as the days went on I couldn't imagine living in an apartment again, or even moving. I believe once the modification is done, we may can work out the rest of the financial burdens in time. And when the market is good again, we can sell the house the correct way and possibly make a profit.
I would love to write you a testimonial for your website - on your honesty and great work ethic..something you don't see much of today.   Let me know how I can do that.
Thanks again!
E.K.

My personal mission is to bring to you a level of knowledge, experience, commitment, high standards and results if you are now or in the future facing a foreclosure.

I believe, the most effective way to provide superior service is to build a strong open working relationship with you. Don't suffer alone, My consultations carry no obligation on your part.

I look forward to the opportunity to work for you. Remember, you are the only person that can make the decision to stay or go, do it because is the best for your loved ones and not because its the best for your pride.
Home is where our heart is. . . .

Fernando

This eBook was written by Fernando Herboso in September 2010
Fernando has created this e-book for you to use as a guide in establishing your options during these difficult times.

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Fernando Herboso
Broker/Realtor/Consultant
Herboso Realty Group
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The information contained in this eBook is intended to be used for informational purposes only and to provide a general overview of the topics described herein. There may be tax and other legal consequences associated with a short sale. Fernando Herboso, its broker and Herboso Realty Group, makes no representations or warranties concerning potential tax or legal consequences relating to any final disposition of any property. Clients are advised to consult with a tax professional regarding the potential tax consequences for their particular situation.

The Business Case For

Short Sale vs Staying

(Their monthly mortgage payment is $2800 per month)

YEAR #1

Mr Smith decides to short sale ***01** his property when he realizes his $500,000 home is only worth $350,000. . leaving him underwater for $150,000	Mr Jones has a wait and see attitude when he realizes he is also $150,000 underwater and leaning towards staying

YEAR #2

Mr Smith is renting for $1500 per month and saving $1300 every month and he decides to save $1000 from this savings every month to buy his next home.	Mr Jones has decided to bear it and wait for the market to get better

YEAR #5

Mr Smith still patiently waits for the market to turn.. still renting and saving $1000 per month	Mr Jones has to get an extra part time job so he can continue paying his $2800 mortgage monthly payment

YEAR #7

Mr Smith smiling. . Even if his short sale was not approved in year one and had to endure a foreclosure. .**7 years has passed and his credit score is back to normal.**	Mr Jones is barely making ends meet. . He just checked his property value averaging a 3% ***02** the last 7years. . .**his house is now worth $ 417,917** . . still long way to go.

YEAR #10

Mr Smith still saving the $1,000 per month savings form doing the short sale 10 years ago and his credit is now fantastic!	Assuming any appreciation at all for more than 3% per year in the last ten years . .it was foolishly optimistic otherwise, given the number of strategic defaults, the flood of foreclosures, the economic data, unemployment and a huge Government deficit.

YEAR #13

Mr Smith still smiling. . His $1,000 per month savings has earned him a small fortune already as he contemplates the future with his family. . .	**Mr Jones house is now worth $499,005** Nearly what he paid for his house. . Except he will have to wait a little longer to sell it because he still has to pay Realtor commissions and closing costs to sell.

YEAR #15

Mr Smith and family are really enjoying the benefits of a good decision 15 years earlier and they are planning a vacation to Hawaii this year	**Mr Jones house is now worth $529,402*03** Not enough to sell his house and break even.. .he need more to pay the Realtor's commissions and Closing costs when selling. No vacation for Mr Jones.

YEAR #17

Mr Smith and family have earned by saving $1,000 every month @ 5% return **a grand total of $321,860*04**. They decided to buy Mr Jones house for **$561,642** and put down all their savings of **$321,860** Their new home will have mortgage payments of **$1,538 per month**. @ 6%/30 year loan. .allowing them to also consider finally . . . retiring.	**Mr Jones house is now worth $561,642*05** and he sells it to Mr Smith. . His old neighbor.. .. After paying 6% commissions and approximately 3% closing costs to sell their home, **they cleared a grand total profit of $11,095 in 17 years!** Their lender is very happy and they get a bottle of wine at closing. . Mr Jones does not have any future retirement plans.

*01 A short sale assuming that the lender gives its right of seeking a deficiency judgment against the homeowner. Conventional short sales are negotiated for the lender to release the homeowners 100% from a deficiency judgment. If the homeowner qualifies for the HAFA program, they will be assured 100% of a release from a deficiency in Maryland.

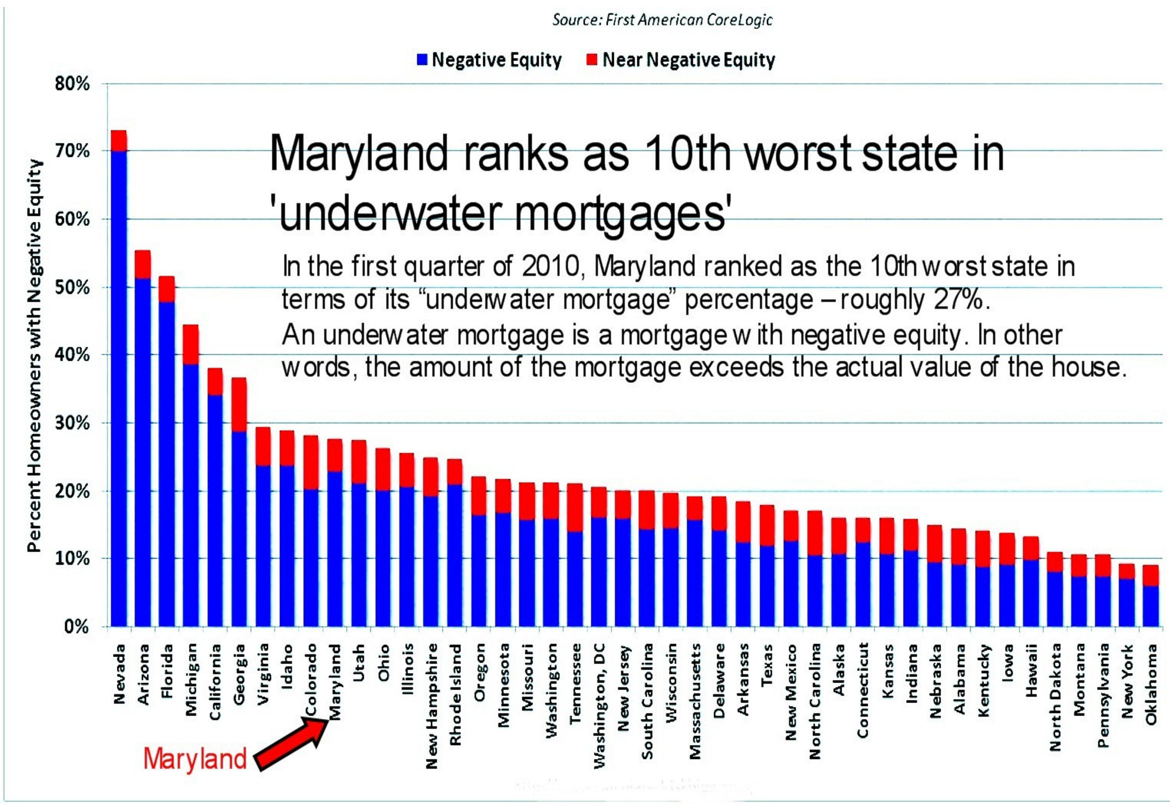
*02 A 3% equity gain average is assuming any appreciation at all in the near term when you first make the decision to stay or go. You may say that is foolishly optimistic, given the number of upcoming flood of foreclosures into the market plus the economic conditions that face our country with record deficits for the next few years.

*03 Assuming that there is tax savings benefits for interest deductions. This figure can fluctuate depending on each particular homeowners financial strength. We decided to offset this savings with maintenance expenses. After 17 years and replacing probably most of the appliances and HVAC system at least once, they will have to also spent money just before putting their home in the market with again new appliances, painting and general repairs to assure themselves of a quick sale.

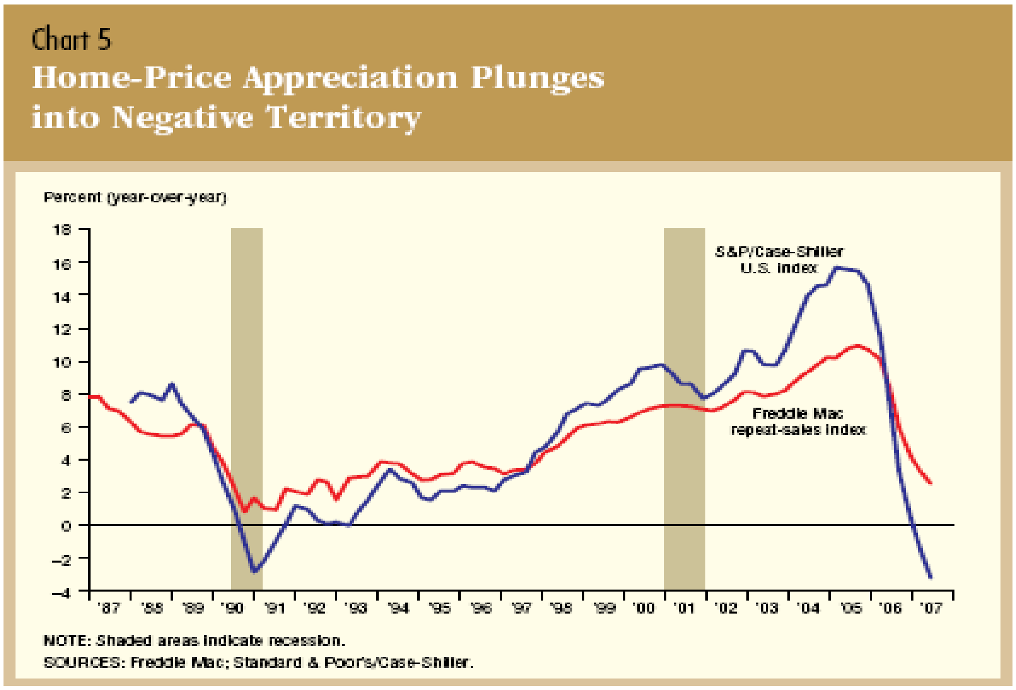
*04 Saving growth projection for 17 years (204 months) @5% annual rate. I may add that even if Mr Smith had decided to put money under his mattress, he would still have $204,000 vs the $11,095 profit that the Joneses realized after 17 years.

*05 Equity gains were calculated @ 3% gain compounded every year for 17 years in a row. .

Here's some real data that you need to look at very careful. .



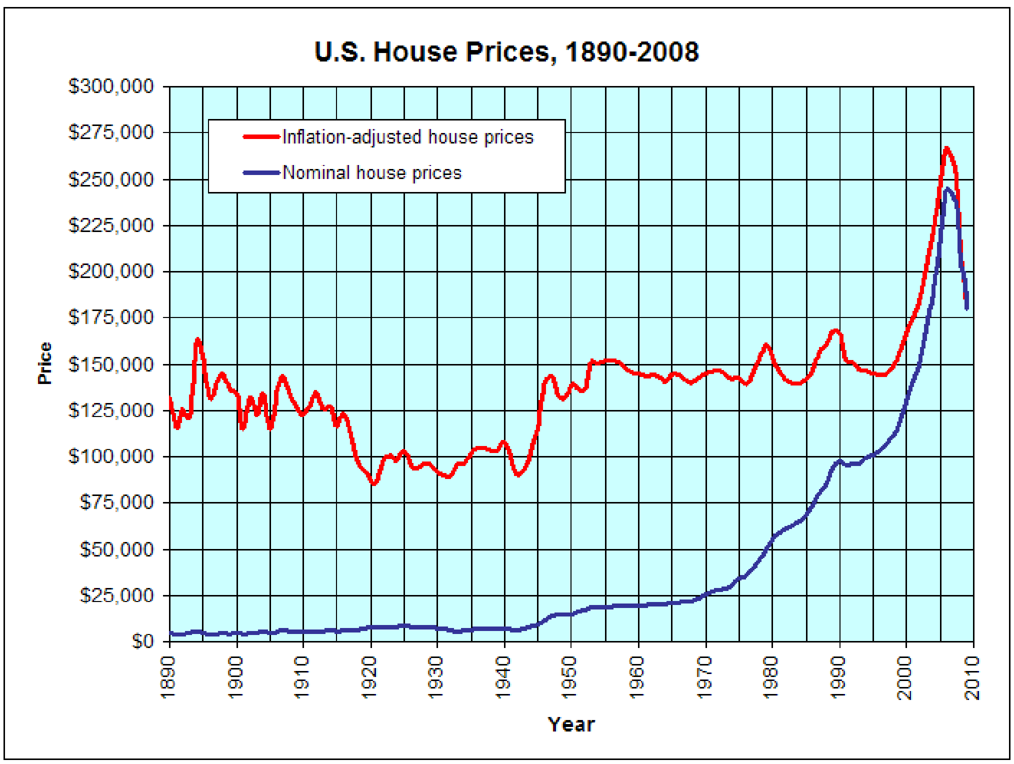
Since 1987, even after the huge growth in 2004-2006 still home appreciation averages below 5%. .want to guess where those lines are heading in year 2027?



The most telling chart showing inflation adjusted house prices for the last 120 years. . .the terrorists did a number on our housing industry. Then President George W Bush wanted a "home for everyone". In an effort to revive our shocking nation after 9-11, interest rates, flexibility of loans and controlling policies for banks oversight were ignored and everybody got a home to utilize it as a cash register. Refinancing was the method used to fuel our economy allowing consumers to splurge on: vacations, TV's, computers, pools, vacation homes, luxury cars. . All this money came from their refi's... even street vendors were experiencing huge gains and their business were booming.

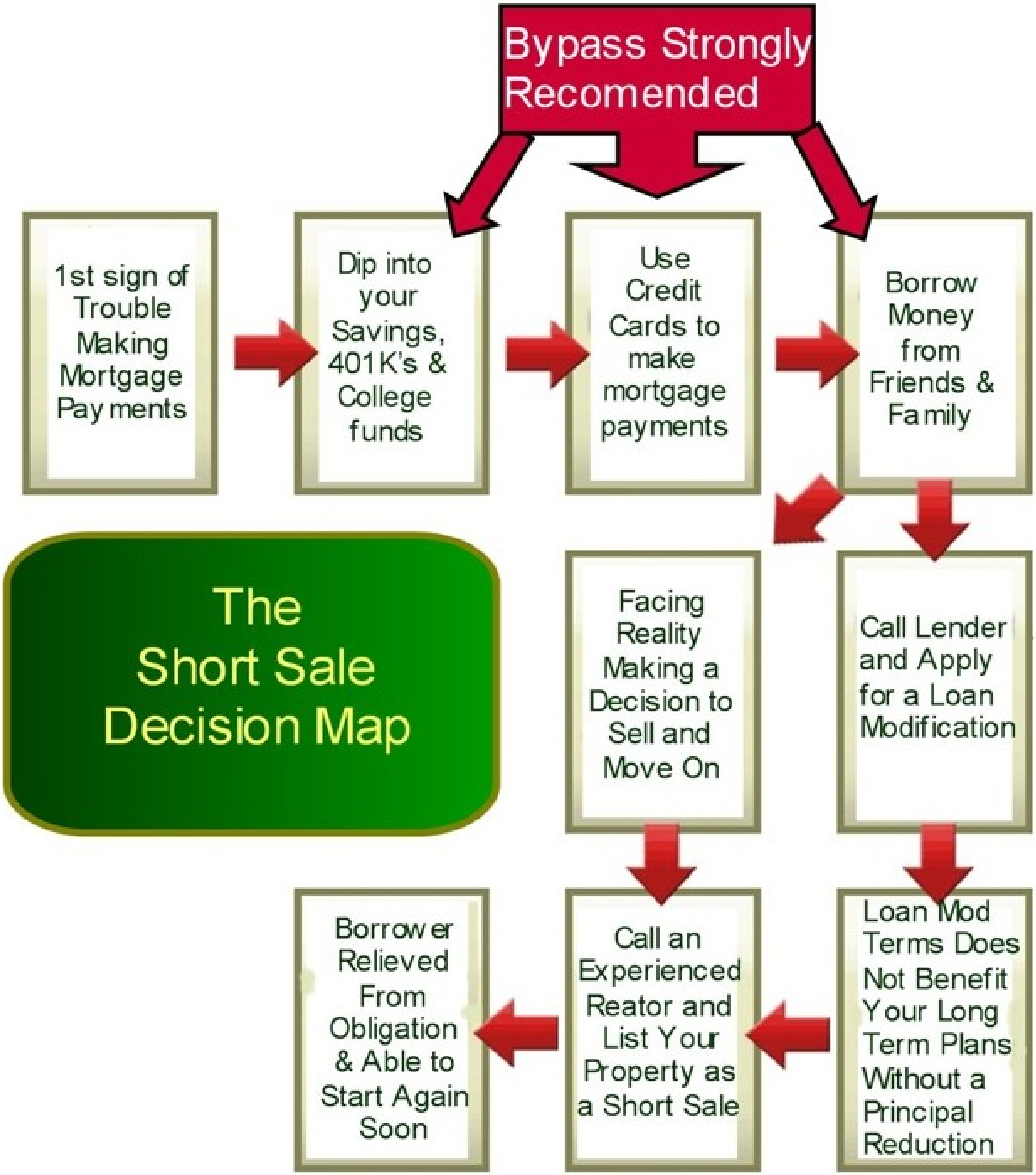
Everything stopped in around late 2006-2007

So based on this brief history as the chart shows for the past **120 years**, were do you think the lines will settle down. . for the next 17 years to fit Mr Smith and Mr Jones story?



I want to end this book with a short sale decision map. . .
Use it to determine the best action to take. . .

Fernando Herboso ~ 2010


Bypass Strongly Recomended
1st sign of Trouble Making Mortgage Payments
Dip into your Savings, 401K's & College funds
Use Credit Cards to make mortgage payments
Borrow Money from Friends & Family
The Short Sale Decision Map
Facing Reality Making a Decision to Sell and Move On
Call Lender and Apply for a Loan Modification
Borrower Relieved From Obligation & Able to Start Again Soon
Call an Experienced Reator and List Your Property as a Short Sale
Loan Mod Terms Does Not Benefit Your Long Term Plans Without a Principal Reduction