

Short Sale Policy

Owner Occupied Housing – Homebuyer Assistance & Housing Rehabilitation

Effective Date:

May 26, 2010

Applicable Programs:

HOME, CDBG, LCAHP, ADDI

Approved by:

Community Development Commission – May 26, 2010

Background

This policy concerns the recapture of previously awarded homebuyer assistance and housing rehabilitation loan funds when the borrower has requested a “short sale” of the assisted housing unit. A formal policy is necessary due to the increased frequency of short sales in the current housing market.

Short Sales typically occur when a borrower(s) cannot pay their mortgage and the lender(s) agree to allow the sale of the home at a loss (i.e. the sale proceeds are less than the balance owed on the loan).

This helps to avoid foreclosure which involves heavy costs for the lender(s) and damage to the credit of the borrower(s). In these instances the primary lender’s investment is often significantly greater than that of the County so they consume much if not all of the proceeds from the sale.

This policy will increase the likelihood that Lake County can recapture at least a portion of previously awarded funds for future program use.

Policy

In the event that the property is unable to be sold for a sufficient amount in order to pay off the first mortgage with a private lender and the second mortgage with Lake County, the County of Lake is willing to accept forty percent (40%) of the remaining balance owed (in lieu of the total amount owed) provided that all Federal Housing Administration (FHA) pre-foreclosure sale requirements are met.

This acceptance is conditioned upon the submission of a formal written request from the borrower including the following supporting documentation:

- Preliminary HUD-1
- Title Report
- Sales Contract
- Proof that any outstanding liens have been paid

Furthermore, no proceeds from the short sale shall go back to the mortgagee.