

FHA Preforeclosure Sales Initiated Before an Offer

Quick Reference Guide for Real Estate Professionals



The Federal Housing Administration (FHA) Preforeclosure Sale Program ("short sale") is different from the conventional short sale process. Use this guide to assist clients with FHA mortgages through a short sale. Time frames for each step will vary based upon your response times, the quality of documents submitted and investor requirements. **Visit our Agent Resource Center for tools, tips and more: bankofamerica.com/shortsaleagent**

Short Sale Agent Help Line
1.866.880.1232

8 a.m. to 10 p.m. Eastern, Monday to Friday
 9 a.m. to 5:30 p.m. Eastern, Saturday

Timeline and Steps for FHA Preforeclosure Sales

	Initiation	Prequalification	Marketing	Offer Analysis	Closing
Key Steps for Agents	<ul style="list-style-type: none"> Discuss FHA Preforeclosure Sale Program ("short sale") process with homeowner Ensure homeowner has been reviewed and declined for a modification Initiate the short sale by asking the homeowner to contact their assigned CRM (or call 1.800.669.6650 if CRM has not been assigned) <p>FHA short sales cannot be initiated by the agent in Equator</p>	<ul style="list-style-type: none"> Fill out third-party authorization form and return to assigned short sale specialist Review Welcome Package with homeowner and provide fully executed (signed and dated) FHA-specific updated documents: <ul style="list-style-type: none"> Pay stubs (dates, amounts, names, institution) Bank statements (all pages, accounts and borrowers) Hardship letter Occupancy certificate Read, review, revise all documents before submitting Facilitate scheduling of appraisal with homeowner (if home is occupied) and assigned appraiser Coordinate access to property for appraiser Inform short sale specialist of any appraisal issues If short sale is approved, receive/read Approval to Participate (ATP) letter Return fully executed ATP within 7 days <p>Document tips:</p> <ul style="list-style-type: none"> Submit all required documents as one package Do not submit expired documents All signatures must be "wet ink" Do not leave any form fields blank - use "N/A" if necessary 	<ul style="list-style-type: none"> Provide to short sale specialist: <ul style="list-style-type: none"> Listing agreement Proof that utilities are turned on Current MLS sheet (every 30 days) Ensure property is maintained during marketing period If vacant, maintain and secure property (per FHA guidelines) 	<ul style="list-style-type: none"> Provide to short sale specialist: <ul style="list-style-type: none"> Purchase contract Buyer Acknowledgement and disclosure HUD-1 Respond to counter offer requests <p>Any changes in an offer will require submission of updated documentation</p>	<ul style="list-style-type: none"> Communicate with short sale specialist to ensure that closing is on schedule Email preliminary HUD-1 5 days prior to closing Close on or before approved closing date, after receiving approval of final HUD-1 Email final closing documents on same day as close of escrow
Key Steps for Bank of America	<ul style="list-style-type: none"> Validate modification review Assign a short sale specialist 	<ul style="list-style-type: none"> Send Welcome Package to homeowner <ul style="list-style-type: none"> Mortgage Letter (explains HUD short sale process) Request appraisal Order title Review Welcome Package documents Review homeowner for FHA short sale program, communicate to agent if homeowner qualifies and next steps If short sale is approved, send Approval to Participate (ATP) letter <p>ATP is usually sent from a person other than the specialist assigned during initiation or prequalification</p>	<ul style="list-style-type: none"> Receive: <ul style="list-style-type: none"> Signed ATP Listing agreement MLS Check in with agent every 30 days regarding offers 	<ul style="list-style-type: none"> Receive: <ul style="list-style-type: none"> Purchase contract Buyer's Acknowledgement and disclosure HUD-1 Verify accuracy of fully executed documents Notify agent of need for additional/missing information or documents <ul style="list-style-type: none"> Issue Short Sale Contract Review Approval/Rejection (SCR-A/R) to agent (terms and conditions of offer approval) If a rejection is issued, the short sale specialist will provide additional guidance on offer renegotiation Issue wiring instructions and closing details 	<ul style="list-style-type: none"> Approve final HUD-1 within 24 hours of receipt Issue final approval to agent Confirm closing by contacting agent on close of escrow date
Projected Time Frame	5 - 7 days	35 - 45 days	Up to 120 days	60 - 60 days	30 - 45 days

*Time frames depend on agent, homeowner and investor(s) completing each task promptly.

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Process Overview

The Federal Housing Administration (FHA) Preforeclosure Sale Program ("short sale") has specific Housing and Urban Development (HUD) requirements. While conventional short sales may close in 30-45 days after an offer has been received, HUD requires the homeowner to be approved to participate in the FHA short sale program. This approval can take 30 to 90 days (depending on specific circumstances) and does not involve a review of the listing agreement or purchase contract.

As a result, Bank of America does not begin negotiating the purchase contract until after the homeowner is approved to participate (and has returned a signed ("wet ink") copy of the Approval to Participate (ATP) within 7 days from the date of issuance).

The next phase of the process begins when the signed ATP is received. The purchase contract negotiations process can take up to 120 days, depending on various factors, such as:

- Whether a variance is required
- Documentation turnaround times
- Documentation accuracy
- Whether there is an offer on the property
- Whether the offer is acceptable

Required initiation documents

- Occupancy letter
- Authorization Form
- Authorization/Acknowledgement
- Financial worksheet:
 - Signed and Dated Hardship Letter
 - Verification of Information and Occupancy
 - Current, non-expired Listing Agreement, Signed and Dated by Seller(s) and Agent
 - Current, non-expired copy of MLS listing or proof of consistent marketing
- Pay Stubs (30 days consecutive)
- Bank Statements (60 days consecutive)

Required prequalification documents

- Signed ATP (not an approval to close)
- Purchase Contract
- HUD-1
- Listing Agreement
- Current MLS
- Buyer's Acknowledgement & Disclosure

NOTE: Additional documentation may be required by the investor.

Steps at a glance

Step	Projected Time Frame (days)	Description
1	3	Homeowner to contact Customer Relationship Manager at 1.800.669.6650.
2	3	Welcome Package sent to homeowner. Includes all required FHA short sale documents, valuation, title, and credit report are ordered at this time (which may take 14-21 days).
3	14	Homeowner or authorized third party returns documents.
4	5	Short sale specialist reviews documents.
5	3	File is submitted for quality review once all accurate seller documents (title and valuation) are received. If additional document collection is required, the process will lengthen.
6	10	Approval to Participate (ATP) is sent to both the seller's agent and the seller.
7	3	File assigned to a short sale specialist within 3 business days of the ATP issuance.
8	3	Short sale specialist contacts the authorized third party within 3 business days from the date the file was assigned, and sends a Welcome Package including all required FHA short sale documents.
9	14	Homeowner or authorized third party returns the documents.
10	5	Short sale specialist reviews documents.
11	3	If all documents are accurate, a conditional sales contract approval is issued.
12	5	Agent submits final HUD-1 for review 5 business days before expected closing date.
13	3	File is submitted for quality review once all accurate documents are received. If additional document collection is required, the process will lengthen.
14	3	Closing instructions issued within 3 days after file has passed quality audit.
15	3	Agent and title company submit all closing documents to short sale specialist.
16	3	Closing documents are reviewed and sent to closing department.

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10 Tips for Efficient FHA Short Sales

Bank of America  Home Loans

1. Set expectations about FHA short sales.

Help sellers and buyers understand that a Federal Housing Administration (FHA) Preforeclosure Sale ("short sale") is a complex, specialized transaction compared with conventional investor transactions, due to specific Department of Housing and Urban Development (HUD) requirements. While traditional short sales typically close in 30 to 45 days once the offer has been approved, HUD requires the homeowner to be approved to participate in the FHA short sale program. This approval can take 30 to 90 days (depending on specific circumstances) and does not involve a review of the listing agreement or purchase contract.

2. Review all documents before submitting, including initiation documents, and fully execute.

Collect, read, review and revise all homeowner's documents before submitting to the assigned short sale specialist. It is important to read the HUD Mortgagee Letter provided in the Welcome Package. Other tips for effectively executing documentation include:

- Review and return requested documents within the specified time frame.
- Continuously collect financial documents until ATP is received (30 days).
- Complete all fields (using N/A when necessary) in each document.
 - Scan documents and submit by email as one complete package.
 - Ensure signatures are handwritten (wet ink) before scanning the document.
 - Type "Completed Welcome Packet" in the email subject line when submitting the completed packet.

3. Pay special attention to property guidelines.

It is important to note that FHA properties:

- Are sold "as-is"
- Must have utilities turned on during the entire marketing period
- May be rekeyed by Property Preservation if vacant (for assistance, contact the Property Preservation Resolution Center at 1.866.515.9759)

4. Request investor approvals when needed.

Additional investor approval must be requested for transactions outside of Bank of America's delegation authority with HUD. Investor approvals can take from 3 to 4 weeks, and can only be expedited if the buyer's rate lock is expiring or the buyer's lease is expiring and sufficient documentation is provided. If the property has been rented longer than 18 months, HUD will require investor approval.

5. Be aware of document expiration timelines.

HUD has strict timelines that dictate the short sale process. These timelines may cause some documents to expire, requiring the agent to submit updated documents throughout the lifecycle of the short sale. Learn more about timelines by visiting HUD.gov.

6. Expect to work with multiple contacts.

Throughout the FHA short sale process, you will work with multiple short sale specialists and will not have a single contact associated with your file.

7. Factor in HUD incentives.

HUD dictates the amount of incentives payable to the seller, up to \$1,000. Additional short sale relocation assistance incentives do not apply. Seller incentives will be applied to any second liens greater than \$1,500. Any surplus after the second lien has been paid, will then be paid to the seller.

8. Understand special fee requirements.

It is important to understand the various FHA requirements regarding fees.

- HUD's maximum allotment for attorney/settlement fees on a purchase price \$150,000 or below is \$750, and for purchase prices \$150,000.01 and above the maximum is \$1,500.
- HUD will pay for unpaid utilities with proof of utility statement, but fees such as late fees, interest, attorney/collection fees and service fees are not paid.
- Buyer's closing costs can be a maximum of 1% of the principal loan amount (not the purchase price) for qualified FHA buyers. The principal loan amount can be found on line 202 of the settlement statement.
- HUD will not approve any pest inspection fees or repair costs.

9. Know when net sales proceeds are affected.

Regardless of the property's sale price, the mortgagee may not approve a short sale contract if the net sale proceeds fall below the minimum allowable thresholds. HUD has established guidelines for varying minimum net sales proceeds based on the length of time a property has been on the market.

- For the first 30 days of marketing, mortgagees may only approve offers that will result in minimum net sale proceeds of 88% of the "as-is" appraised Fair Market Value (FMV).
- During the next 30 days of marketing, mortgagees may only approve offers that will result in minimum net sale proceeds of 86% of the "as-is" appraised FMV.
- After 60 days and for the duration of the short sale marketing period, mortgagees may only approve offers that will result in minimum net sale proceeds of 84% of the "as-is" appraised FMV.

10. Watch for common causes of delays.

- Inaccurate, incomplete and/or expired documentation
- Lack of participation from the homeowner

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Agent FAQs

Bank of America  Home Loans

- 1. How do I start the FHA short sale process with Bank of America?**

Coordinate with the homeowner to contact their Customer Relationship Manager (CRM) to initiate an FHA Preforeclosure Sale ("short sale"). If the homeowner does not have an assigned CRM, the homeowner should call 1.800.669.6650 to initiate the FHA short sale process. Agents cannot initiate FHA short sales in Equator. (Note: Per the Mortgagee Letter, if the homeowner has not yet been reviewed for a modification, they will need to complete the modification review process before being considered for a short sale.)
- 2. Why is approval required for my client to participate in an FHA sale?**

The Department of Housing and Urban Development (HUD) requires that the homeowner be determined eligible to participate in the short sale program by validating that the homeowner has a legitimate hardship, that his/her financial situation reflects the stated hardship, and that the short sale program is the most beneficial program for all stakeholders.
- 3. Can I go right into an FHA short sale if my client has an FHA loan?**

HUD requires that the homeowner be reviewed for all home retention options prior to pursuing a short sale in order to ensure that the homeowner has considered all the options available and that a short sale is the appropriate choice.
- 4. Why is FHA not in Equator?**

FHA short sales are currently managed outside of Equator. Planning is underway to move FHA to Equator at a future date.
- 5. Does the homeowner need to actively participate in the FHA short sale process? If so, why?**

Yes, HUD requires that the homeowner actively participate in the short sale program (return documents within the required time frames and maintain contact with the mortgage servicer) in order to be continually reviewed for eligibility.
- 6. Why are all Homeowners' Association (HOA) delinquent dues not paid?**

HUD will only pay actual unpaid dues. Late fees, interest, penalties, collection fees, etc. are not allowed. A detailed statement/invoice is required to verify that non-allowable fees are not charged.
- 7. What are the required steps for HUD?**

Please review the required steps outlined in the [Mortgagee Letter](#).
- 8. Why do I have to provide an Occupancy Certificate?**

HUD requires verification of occupancy since the occupancy status can affect stipulations of the short sale program and mandate additional approvals.
- 9. If my client is declined for an FHA short sale, what are the next steps?**

Contact the CRM to review available options.
- 10. Why does the Sales Contract Review Approval Form (SCR-A) not stipulate a close date?**

HUD does not specify a closing date on the SCR-A since the time frame for closing is outlined in the Approval to Participate (120 days from the issuance date, and a 60-day extension in certain circumstances). As long as the sale is closed within those time frames, HUD allows the closing date to be dictated by the terms of the purchase contract.
- 11. Can I contact the CRM for information and updates during the short sale process?**

No. The CRM acts as a point of contact for the homeowner, and routes the homeowner to the appropriate area to ensure he/she receives the most up-to-date information and expertise as it relates to an individual's situation.
- 12. Why did I receive a Mortgagee Letter?**

HUD's Mortgagee Letter highlights specific requirements and obligations that are pertinent to both Bank of America and the homeowner so that they are able to complete the short sale in the most effective manner possible.
- 13. My file was reassigned to another specialist. Can I work with the specialist previously assigned?**

Files are assigned to short sale specialists based on work load. Bank of America is committed to minimizing file movement as much as possible; however, files may be reassigned to balance the workload or due to employee turnover, vacation and leaves.
- 14. What should I do if the property locks have been rekeyed and I cannot access the property?**

Contact the Property Preservation Resolution Center at 1.866.515.9759, or by email at fs.escalation@bankofamerica.com.