Information Sheet
Pre-foreclosure Sale Procedure

U. S. Department of Housing and
Urban Development
Office of Housing
Federal Housing Commissioner

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Homeowners who have defaulted on their mortgages often attempt to sell their properties in order to avoid foreclosure and to protect their credit standing. However, because of declining property values in certain areas, some homeowners cannot realize enough from the sale to pay off their mortgage balances.

Therefore, the Department of Housing and Urban Development (HUD) has implemented the Pre-foreclosure Sale (PFS) Program. This program permits homeowners to attempt to sell their home for a fair market sale price, which can be less than the amount owed to the lender. HUD then reimburses the lender for the difference between the sale proceeds and the outstanding mortgage indebtedness.

Homeowners who sell their properties under the PFS Program may also benefit by avoiding the effect of a foreclosure on their credit rating.

Upon review of the homeowner's financial situation, the lender will determine the type of PFS process for which the homeowner qualifies: (1) Standard PFS, (2) Streamlined PFS, or (3) Streamlined PFS for Servicemembers with Permanent Change of Station Orders.

Once the type of PFS has been determined, there are certain criteria which must be met before the homeowner may be permitted to pursue a PFS.

Homeowners must engage the services of a real estate broker/agent. The real estate broker/agent selected must have no conflict of interest with the homeowner, lender, appraiser, or buyer associated with the PFS transaction. The transaction must be between two unrelated parties and be characterized by a selling price and other conditions that would prevail in a typical real estate sales transaction. If the homeowner secures a sales contract prior to receiving the Approval to Participate, the homeowner may submit the contract to the lender for consideration of PFS Program approval.

Owner-occupant homeowners who are not required to make minimum cash reserve contributions and successfully sell their properties using this program are relieved of their mortgage obligation and may be entitled to a cash incentive up to $3,000. The homeowner may apply a portion or the entire amount of the $3,000 consideration to resolve junior liens and to offset the sales transaction costs not paid by HUD (including a home warranty plan fee, costs of optional repairs, and buyer's closing expenses). Eligible homeowners are permitted at closing to receive the remaining amount from the aforementioned $3,000 consideration. This remaining amount may only be used for transition or relocation assistance.

If, after a good faith effort, an acceptable purchase offer is not obtained within the allotted time, the lender may accept a Deed-in-Lieu (DIL) of Foreclosure from the homeowner. While a DIL is less desirable than a PFS on a homeowner's credit record, it is still looked upon more favorably by creditors than a foreclosure.

By calling this number, _____, the homeowner will receive further details from their lender about the procedure and whether they may qualify. Please NOTE that the homeowner is under no obligation to make this call.