



Hawai'i Home Advocates

"Understanding Makes All the Difference."™

AFTER THE SALE

After the Sale

Closing This Chapter, Starting the Next

"Your home sold. Now you have more options than you think."

A short sale or deed-in-lieu was a hard decision — and a brave one. This guide explains what happens next: your credit, your taxes, your housing, and your path to buying again.

Hawai'i Home Advocates

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Free consultation. No sign-up. No obligation.

“You made the hardest call. The hard part is behind you.”

A short sale or deed-in-lieu of foreclosure closes a chapter that was consuming you. The lender accepted less than what was owed, the title transferred, and you walked away. That was not failure — that was a deliberate act to protect yourself and your family.

This guide covers what the next weeks and months look like, and what steps put you in the strongest possible position going forward.

Your Closing Documents — Keep Everything Forever

After a short sale closes, you should receive a **HUD-1 Settlement Statement** or **Closing Disclosure**, the lender’s written short sale approval letter, and the deed of conveyance. Store these documents permanently — they are your proof of the transaction and your protection against any future claims.

⚠ Was Your Deficiency Waived?

Check your short sale approval letter carefully. In Hawai‘i, a **deficiency judgment** — where the lender sues you for the difference between what you owed and what the home sold for — is **prohibited after a nonjudicial foreclosure** of an owner-occupied residential property (HRS §667-38). However, a short sale is not a foreclosure. Unless your approval letter explicitly waives the deficiency in writing, the lender may retain the right to pursue the remaining balance. If your letter is unclear, consult a HUD-approved housing counselor or attorney before assuming you are protected.

⚠ 1099-C: The Phantom Income Problem

When a lender forgives debt — including the difference between your loan balance and the short sale price — the IRS treats that forgiven amount as taxable income. You will likely receive a **Form 1099-C (Cancellation of Debt)**. The **Qualified Principal Residence Indebtedness (QPRI) exclusion** protected this debt from taxation through 2025; agreements entered before January 1, 2026 may still qualify even if the sale closed later. However, if your sale closed after that date and the exclusion does not apply, the forgiven debt could be added to your taxable income. **Consult a CPA as soon as you receive a 1099-C.** An insolvency exclusion may also apply if your debts exceeded your assets at the time of discharge.

Your Credit After a Short Sale

A short sale typically appears on your credit report as “**settled for less than the full amount owed**” or as a charge-off, depending on how the lender reports it. The impact is real but recoverable.

- **Score drop:** Typically 85–160 points, depending on your starting score and payment history before the sale.
- **Duration:** The entry stays on your credit report for **7 years** from the date of first delinquency.
- **Review your report:** Pull your free reports at **AnnualCreditReport.com** and check all three bureaus (Equifax, Experian, TransUnion) for accuracy.
- **Dispute errors:** If the lender reports incorrect balances, wrong dates, or duplicated entries, file disputes directly with each bureau in writing.

Rebuilding Your Credit — Step by Step

- 1 Open a **secured credit card** with a \$200–\$500 deposit and use it for one small recurring expense. Pay it in full every month.
- 2 Stay current on all remaining obligations — car loans, student loans, utilities. Every on-time payment rebuilds your history.
- 3 Keep your **credit utilization below 30%** of your available limit. Below 10% is ideal.
- 4 Avoid opening multiple new accounts at once. Each application creates a hard inquiry that temporarily lowers your score.
- 5 Ask a trusted family member with good credit to add you as an **authorized user** on their card. Their history can benefit your report.

✓ Target Credit Scores for Buying Again

FHA loans: minimum 580 (3.5% down) or 500 (10% down). Conventional loans: minimum 620, best rates at 740+. VA loans: no official minimum, but most lenders prefer 620+. Most buyers who had a short sale reach qualifying scores within 2–3 years with consistent effort.

When Can You Buy Again?

Hawai'i home prices mean that buying again is a real goal for most sellers — and it is achievable sooner than most people expect. Waiting periods begin on the **closing date of the short sale**.

Conventional Loan

4 years standard

2 years with documented extenuating circumstances (job loss, medical, divorce)

Min. credit score: 620

FHA Loan

3 years standard

1 year Back to Work program (limited availability)

Min. credit score: 580

VA Loan

2 years standard

No official minimum credit score; most lenders require 620+

Available to eligible veterans, active duty, surviving spouses

USDA Loan

3 years standard

For eligible rural properties in Hawai'i

Min. credit score: typically 640

Native Hawaiian Home Lands

If you are on the DHHL waiting list, a short sale does not automatically disqualify you, but it may affect your application. Contact DHHL directly at (808) 620-9500 to understand how your specific situation is reviewed. Section 184A loans, designed for Native Hawaiian borrowers on fee-simple land, have separate underwriting guidelines.

Documenting Extenuating Circumstances

If you qualify for a shorter waiting period, you will need to document that the hardship was **beyond your control, temporary**, and that you have since demonstrated financial recovery. Keep all records of: layoff notices, medical bills, divorce decrees, death certificates, and any documentation showing income disruption. Your lender will require these at application.

Housing Right Now — Finding a Place to Land

After a short sale, your first priority is stable housing. Rental markets in Hawai'i are competitive, and a damaged credit score adds an extra hurdle — but it is not a wall.

- **Explain proactively:** Many landlords will rent to someone with a short sale if you can show steady income, a larger deposit, and a brief written explanation of what happened and how your situation has stabilized.
- **Reference letters:** A letter from your employer, a former landlord, or a community leader can offset a lower credit score in a landlord's eyes.
- **Private landlords** are often more flexible than large property management companies. Look on Craigslist, Facebook Marketplace, and neighborhood community boards.

Assistance Programs Available in Hawai'i

- 1 Hawai'i Public Housing Authority (HPHA):** Administers Section 8 Housing Choice Voucher program for income-qualified households. Wait lists open periodically at hpha.hawaii.gov.
- 2 Aloha United Way 2-1-1:** Call or text 211 for referrals to emergency rental assistance, shelter, and transitional housing statewide.
- 3 DHS Benefit, Employment & Support Services:** Emergency financial assistance for qualifying individuals and families. Visit humanservices.hawaii.gov.
- 4 Catholic Charities Hawai'i:** Provides emergency rental assistance and housing navigation regardless of faith affiliation.

⚠ Watch Out for Foreclosure Rescue Scams

After a short sale, some operators target former homeowners with "buy-back" schemes, rent-to-own traps, or fraudulent credit repair services. No one can legally remove accurate negative information from your credit report, regardless of what they charge. If an offer sounds too good to be true, contact the Hawai'i Office of Consumer Protection at (808) 587-3222 before signing anything.

FREE RESOURCES

About free legal help in Hawai'i: Free legal representation for housing matters is very limited. Most free resources provide information or referrals, not an attorney who will represent you.

GreenPath Financial Wellness

Free credit counseling, debt management, and housing counseling. Available 24/7 by phone.
877-337-3399 | greenpath.com

Money Management International (MMI)

Free budget counseling and credit report review.
866-889-9347 | moneymanagement.org

Hawai'i HomeOwnership Center (HHOC)

HUD-approved counseling for Hawai'i homeowners. Post-sale recovery planning.
808-523-9500 | hihomeownership.org

Volunteer Legal Services Hawai'i

Free civil legal help for qualifying low-income residents — housing, landlord-tenant, bankruptcy, and more. Apply online or call for intake.
808-528-7046 (O'ahu) | 1-800-839-5200 (Neighbor Islands) | vlsh.org

Hawai'i State Bar — Lawyer Referral Service

Get matched with a licensed Hawai'i attorney. Many offer a free or reduced-fee first consultation. Available Mon–Fri 8:30 a.m.–4:30 p.m.
808-537-9140 | hawaiilawyerreferral.com

Legal Aid Society of Hawai'i — Elder Law Services Only (age 60+)

Confirmed services: Advance Health Care Directive, Power of Attorney, and Simple Wills for residents 60+. Does not cover housing, debt, or post-sale legal matters.
808-536-4302 | legalaidhawaii.org

A REAL HAWAII STORY

The Garcia Family

Charlene & Hannah · Wahiawa, O'ahu · NOD — Open Market Sale

Charlene had stepped away from work to care for her terminally ill husband, who passed in 2023. She and her daughter Hannah were left grieving — and facing a Notice of Default that had been accumulating for two years. Every investor who contacted her was offering far below market value. Barbara explained the difference between investor offers and an open market sale and recommended listing — covering Charlene's moving and cleanup costs upfront to make it possible. When Barbara saw increased legal activity from the lender's attorneys, she advised listing immediately as-is. The home went under contract in one day. One week later a commissioner was assigned to auction the property. Barbara spoke directly with the commissioner and secured a postponement. She successfully negotiated every stage of the contract and closed the sale. Charlene paid off all debt, walked away with a significant sum, and laid down a burden she had carried for two years.

★★★★★ Google Review

"Our Amazing Realtor Barbara Coote Has Been With Me and My Ohana Through Every Single Step Of The Selling Of Our Home Process. She Has Gone Above and Beyond To Ensure Me and My Family Got The Best Deal and The Process With Everyone Involved Went As Smooth As Possible. We Are Ever So Grateful For Her and The Team. Much Mahalo 🙌"

— Love, The Garcia's 🌻 Wahiawa, O'ahu



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Military Relocation Professional (MRP)

"When God closes a door, He opens a window."

I want to be that window for you.

"Informed Decisions are the Best Decisions."™

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Free. No sign-up. No obligation. Ever.