

FORECLOSURE VS. SHORT SALE

Homeowner Consequences

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Issue	Foreclosure	Successful Short Sale
Future Fannie Mae Loan – Primary Residence (effective May 21, 2008)	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years, and possibly 7 years.	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed mortgage after only 2 years.
Future Fannie Mae Loan – Non Primary (effective May 21, 2008)	An Investor who allows a property to go to Foreclosure is ineligible for a Fannie Mae backed investment mortgage for a period of 7 years.	An investor who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed investment mortgage after only 2 years.
Future Loan with any Mortgage Company	On any future 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 that asks “Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?” this may affect future rates.	There is no similar declaration or question regarding a short sale.
Credit Score	Score may be lowered anywhere from 250 to over 300 points. Typically will affect score for over 3 years.	Only late payments on mortgage will show and after sale mortgage could be reported as ‘paid as agreed’. This will lower the score as little as 50 points if all other payments are being made. A short sale’s effect may be as brief as 12 to 18 months.
Credit History	Foreclosure will remain as a public record on a person’s credit history for 10 years or more.	Short sale is not reported on a credit history. There is no specific reporting item for ‘short sale’. The loan could be reported ‘paid as agreed’.
Current Employment	Employers have the right and are actively checking the credit regularly of all employees who are in sensitive positions. A foreclosure may negatively impact employment.	A short sale is not reported on a credit report and is therefore not a challenge to employment.
Security Clearances	Foreclosure may create one of the biggest challenges to obtaining a security clearance outside of a conviction of a serious misdemeanor or felony. If a client has a foreclosure and is a police officer, in the military, in the CIA, Security, or any other position that requires a security clearance, the clearance may be challenged.	A Short Sale on its own does not challenge most security clearances.
Future Employment	Many employers are requiring credit checks on all job applicants. A foreclosure is one of the most detrimental credit items an applicant can have and it may challenge employment.	A short sale is not reported on a credit report and is therefore not a challenge to employment.
Deficiency Judgment	In 100% of foreclosures (except in those states and specific types of loans where there is no deficiency) the bank has the right to pursue a deficiency judgment.	In some successful short sales it is possible to convince the lender to give up the right to pursue a deficiency judgment against the homeowner.
Deficiency Judgment (amount)	In a foreclosure the home will have to go through an REO process if it does not sell at auction. In most cases this will result in a lower sales price and longer time to sell in a declining market. This will result in a higher possible deficiency judgment.	In a properly managed short sale the home is sold at a price that should be close to market value and in almost all cases will be better than an REO sale resulting in a lower deficiency. The Mortgage Debt Relief Act allows taxpayers to exclude from income certain discharged debt on their primary residence from 2007 through 2012.



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