

# SHORT SALE VS. FORECLOSURE

## ISSUE

Credit Score

### SHORT SALE

A short sale itself will minimally affect your credit score, usually around 50 points. Late payments usually have the largest negative impact on your credit score from a short sale and can average 30 points or more each.

### FORECLOSURE

Your credit score could be lowered 300+ points and will stay on your record for 10 years.

Credit History

There is not a credit reporting item for a short sale. Upon sale, your mortgage company will typically report the short sale as "paid", "settled in full", or "paid as Negotiated" on your report.

A foreclosure will remain on your credit for 10 years and is permanent in the public records of your county.

Current Employment

A short sale is not an actual item on your credit report and typically will NOT affect your employment.

Your employer has the right and many times will actively check your credit if you are in sensitive positions. Sometimes a foreclosure is grounds for immediate reassignment or termination.

Future Employment

A short sale is not an actual item on credit report and typically will NOT affect future employment.

Employers do check your credit history for many job applicants. A foreclosure is one of the most negative items you can have on your credit and may affect future employment.

Future Loan with a Mortgage Company

You typically do not have to declare to future mortgage companies that you previously performed a short sale.

On the federally mandated standard loan application from 1003, you will be required to answer "YES" to the question "Have you had property foreclosed upon or given title in lieu thereof in the past 7 years?" Answering yes affects the interest rate you will receive.

Future Fannie Mae Loan – Primary Residence

After a successful short sale you may be eligible for a Fannie Mae backed loan after only two years.

After a foreclosure you will be ineligible for a Fannie Mae backed loan for a minimum of five years.

Future Fannie Mae Loan – Non-Primary

After a successful short sale you may be eligible for a Fannie Mae backed loan after only 2 years on non-primary residences.

After a foreclosure you will be ineligible for a Fannie Mae backed investment loan for a minimum of 7 years.

Deficiency Judgment

It is typical for the lender to give up the right to pursue a deficiency judgment against the borrower. This is stated in approval letters, and is not legal to collect in many states.

The bank has the right to pursue the deficiency judgment in all foreclosures (except states where there is no deficiency).

Deficiency Amount

A short sale home is sold at or near market value and in most cases is a greater value than a foreclosure sale which results in a lower deficiency. This deficiency is typically forgiven. This higher selling price helps to cut your lender's loss.

If the home does not sale at foreclosure auction it will have to go through the bank REO system. This will result in a longer sell time and potentially a higher deficiency judgment for the homeowner.