

FORECLOSURES VS SHORT SALES

Homeowner Consequences

ISSUE	FORECLOSURE	SUCCESSFUL SHORT SALES
Future Fannie Mae Loan - Primary Residence	A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae-backed mortgage for a period of 5 years	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae-backed mortgage after 2 years
Future Fannie Mae Loan - Non-Primary Residence	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 2 years
Credit Score	Score may be lowered anywhere from 250 to more than 300 points. Typically will affect a credit score for over 3 years	Late payments on mortgage will show, and after sale, mortgage is normally reported as "paid as agreed", "paid as negotiated" or "settled." This can lower the score as little as 50 points if all other payments are being made. A short sale's effect can be as brief as 12 to 18 months.
Credit History	Foreclosure will remain as a public record permanently, and on a person's credit history for 10 years or more	A short sale is not reported on a credit history. There is no specific reporting item for "short sale." The loan is typically reported "paid in full, settled."
Security Clearance	Foreclosure is the most challenging issue against a security clearance outside a serious misdemeanor or felony conviction. 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, in almost all cases clearance will be revoked and position will be terminated.	On its own, a short sale does not challenge most security clearances
Current Employment	Employers have the right and are actively checking the credit of all employees who are in sensitive positions. In many cases, a foreclosure is reason for immediate reassignment or termination	A short sale is not reported on a credit report and is therefore not a challenge to employment
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 (besides bankruptcy/charge off) and in most cases will challenge employment	A short sale is not reported on a credit report and is therefore not a challenge to future employment.
Deficiency Judgment	In 100% of foreclosures (except in those non-deficiency judgment states), the bank has the right to pursue a deficiency judgment	In some successful short sales, it is possible to convince the lender to sign a release and give up their 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 sale 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
Deficiency Judgment (statute of limitations)	In a foreclosure, the first mortgage holder has 6 months to file for a deficiency judgment (the second mortgage holder has 6 years).	If the mortgage holder does not release their right to pursue a deficiency judgment they have up to 6 years to file and seek a deficiency judgment.

The Car Wash Guy Said I Could Get Arrested If I Short Sale My House

What is a Short Sale?

- Homeowner and bank agree to sell at a price that's less than the amount owed on the home
- Homeowner and a buyer enter into purchase contract
- Homeowner's lender(s) then approve the purchase contract

How long does it take to get approval from the Bank?

- Depending on the bank, from 2 weeks to 6 months+

Should I make payments while going through the short sale?

- Homeowner's choice – some do and some don't
- Consult a CPA or real estate attorney if you need help making this decision

Will the bank come after me down the road for the deficiency?

- If the home was your primary residence, you may be protected by the Federal Mortgage Debt Forgiveness Act
- An option down the road, if they come after you for the deficiency, may be to file bankruptcy
- Consult a CPA or real estate attorney to discuss the "what ifs"

Should I stay in the house during the Short Sale process or move?

- If you stay, be prepared to show home and possibly have a key box on your property
- By the way, homes sell faster when they are vacant
- Or, you could stay and save money while waiting for short sale process to go through
- Consider moving to another home and moving on with your life

What about taxes and buying another home in the future?

- If you've taken cash out for things other than home improvements, you could have negative tax consequences
- Some lenders are saying that another home can be purchased two years after a short sale
- Your lenders may 1099 you, and tell the IRS that the deficiency should be counted as income to you
- Consult a CPA and mortgage professional

What if I can't make up my mind?

- Are you upside down? What makes financial sense? Will you have equity five years from now?