

Homeowner Consequences Short Sale vs. Foreclosure

Issue	Foreclosure	Successful Short Sale
Any Future Fannie Mae Loans to buy a 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 .	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed mortgage after only 2 years .
Any Future Fannie Mae Loans to buy a Non Primary Residence (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 .
Any Future Loan with any Mortgage Company	On any future 1003 financing application, a prospective borrower will have to answer YES to question C in Section VII 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 will 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 a mortgage will show and after sale mortgage will be reported as paid or negotiated. This will lower the score as a little as 50 points if all other payments are being made. A short sale's affect can be as brief as 12 to 18 months .
Credit History	Foreclosure will remain as 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'. A loan is typically reported 'paid in full, settled'.
Security Clearances	Foreclosure is the most challenging issue against a security clearance outside 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 in almost all cases clearance will be revoked and position will be terminated .	A Short Sale on its own does not challenge most security clearances .

Current Employment	Employers have the right and are actively checking the credit regularly of all employees who are in sensitive positions. A foreclosure in many cases is ground 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 and in most cases will 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 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 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 .