

Foreclosure vs. Short Sale

Homeowner Consequences

ISSUE	FORECLOSURE	SUCCESSFUL SHORT SALE
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 only 2 years.
Future Fannie Mae Loan (Non-Primary)	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 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 form 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	We've heard scores may be lowered anywhere from 250 to more than 300 points. But, because there are so many factors that go into rating, the accuracy of this is unclear. Typically, credit scores will be affected for over 3 years.	Only late payments on a mortgage will show. 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.	They typically report it as settled for less than full amount. This is reported in the public record section of the credit report.
Security Clearances	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	It is possible that employees in sensitive positions may be reassigned or terminated by employers who check credit records, however, this does not appear to be the norm.	A short sale is reported in the public records section of the credit report, typically as "settled for less than full amount", but does not have a box to check like Foreclosure or Bankruptcy.
Future Employment	A foreclosure is one of the most detrimental items an applicant can have and it can challenge employment opportunity. Many states are passing laws to prevent employers from using credit reports in the hiring process. Oregon has passed this law.	A short sale is reported in the public records section of the credit report, typically as "settled for less than full amount", but does not have a box to check like Foreclosure or Bankruptcy.
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 sell in a declining market. This can 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 since it could result in a lower deficiency.