

## Short Sale & Foreclosure Effects on Credit

Sellers may wonder whether letting a property go into foreclosure would be easier and smarter than going through a Short Sale. A foreclosure and a short sale look about the same on your credit report. It's devastating. With a short sale, you sell your home and if you don't satisfy the mortgage amount the bank may forgive the deficiency. A short-sale is positive for both the lender who doesn't have to go through the process of foreclosing and the homeowner, who may be able to walk away without a huge amount of debt. If you simply walk away, your house will be sold at auction, and if the amount it's sold for doesn't satisfy the mortgage, you'll be on the hook for the deficiency. And lenders can go after you for the money by attaching liens on other property you own.

### Basics of a Short Sale

Short Sales happen when a lender agrees to accept less than the amount owed against the home because there is not enough equity to sell and pay for all costs of the sale. Not all lenders will negotiate a Short Sale, and that is why a Real Estate agent can be a tremendous help by contacting the lender's loss mitigation department to find out.

You can't just decide one day that you're going to sell your home at a loss by asking for a short sale. Typically, lenders won't even consider a Short Sale if your payments are current. Lenders will be more agreeable to negotiation if your payments are in arrears.

Doing a short sale is not for the faint of heart. A short sale involves offering the home for sale, generally listed through MLS. Potential home buyers will make appointments to view the home, some will make lowball offers, agents might hold open houses and, in general, a seller's life will be disrupted, all in the hopes that a buyer will buy the home.

### How is the Seller's Credit Affected?

Sellers will take as big a hit on their credit report by going through foreclosure as giving the lender a deed-in-lieu of foreclosure, providing you are more than 30 days in arrears. The points lost on a FICO score (the formula used to assess a borrower's risk factor) are as follows:

**Foreclosure or Deed-in-Lieu of Foreclosure:** Both of these solutions affect credit the same. Sellers will take a hit of 200 to 300 points, depending on overall condition of credit. This means if a seller's FICO score before foreclosure was 680, it could dip as low as 380.

**Short Sale:** The affect of a short sale (providing the sellers are more than 59 days late) on a seller's credit report is identical to that of foreclosure. The ding on credit will show up as a pre-foreclosure in redemption status, which will result in a loss of 200 to 300 points. This means a short sale with a previous FICO of 720 will see it fall to 520 to 420.

### Waiting Period Before Buying Another Home

Recently, Fannie Mae and Freddie Mac have changed their guidelines on waiting periods for buying:

- ⌘ **After Foreclosure** - 5 years up to 7 years.
- ⌘ **After a Deed-in-Lieu of Foreclosure** - 4 to 7 years.
- ⌘ **After a Deed-in-Lieu of Foreclosure with Extenuating Circumstances** - 2 to 7 years.
- ⌘ **After Short Sale** - 2 years, no minimum credit score and no minimal down payment. (However, if a seller does not have a 60-day late pay, that seller may immediately buy another home. It's a reason to stay current on your payments while the home is on the market as a short sale.)

### Short Sale/Foreclosure Deficiency Judgments

The bad news is a seller could be subject to a deficiency judgment for the difference between the loan amount and the amount paid. In California, purchase money loans are not subject to deficiency judgments; however, some hard money loans, equity loans and refinances are. Other states have laws regarding personal guarantees, which could also result in a deficiency judgment if the home owner is personally liable for loan repayment.

The lender has sole discretion whether to pursue a deficiency judgment in those instances when the judgment is permitted. To determine whether a pending foreclosure or short sale is subject to a deficiency judgment, talk to a real estate lawyer.

If you're a seller trying to decide whether to let a home go through foreclosure versus attempting a short sale, salvaging your credit may not be an advantage to doing a short sale, if you've fallen behind on your payments. The only advantage is being able to buy another home within two years over the three-to five-year period required for foreclosures. But seek legal and tax advice before making that decision.

*"The presence of a foreclosure on your credit report probably will make it extremely difficult to obtain new credit at the best rates. A foreclosure remains on your credit report seven to 10 years, so it will have a long-term effect on your creditworthiness. Experian - Credit Bureau"*



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