

Foreclosure vs. Short Sale

ISSUE	FORECLOSURE	SUCCESSFUL SHORT SALE
Future Fannie Mae Loan Primary Residence¹	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-Primary²	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 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 form that asks <i>"Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?"</i> 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 mortgage will show, and after Sale, mortgage is normally reported as "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 person's credit history . There is no specific reporting item for "Short Sale." The loan is typically reported "paid in full" or "settled."
Security Clearances	Foreclosure is the most challenging issue against a security clearance outside of 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 . ³
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 . ⁴
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 . ⁵
Deficiency Judgment	In some states, lenders have the right to pursue a deficiency judgment after foreclosure, but California law prohibits a deficiency judgment after foreclosure under a note secured by a first deed of trust or mortgage for a dwelling of not more than four units.	In California, lenders cannot pursue a deficiency judgment if they agree to a short pay.
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 could result in a higher deficiency judgment in states which permit such judgments.	In a properly managed Short Sale, the home is sold at a price that should be close to market value, and in almost cases, will be better than an REO Sale, thereby resulting in a lesser deficiency .

In either scenario, title can be affected in many ways. If your property is in escrow, there are conditions and time-frames that have to be met in order for the title company to close your transaction effectively without delay. Therefore, when buying, selling or refinancing your home, request Progressive Title to insure that you receive the comprehensive protection you need and the attention to detail you deserve.

¹ Fannie Mae Announcement 08-16; Michael A. Quinn, Senior Vice President, Single-Family Risk Officer
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³ Short Sales are currently not explicitly reported on a credit report
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