

FORECLOSURE VERSUS SHORT SALE BORROWER CONSEQUENCES

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Issue	Foreclosure	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 investment 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 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 in 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 a 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 more than 300 points. Typically will affect a credit score for more than 3 years	Only late payment on mortgage will show and after sale, mortgage is normally reported as "paid as agreed," "paid as negotiated"
Credit History	Foreclosure will remain as a public record permanently, and on a person's credit score for over 3 years	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 a reason for immediate termination or reassignment.	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 future 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 may 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.

Note: Information not guaranteed to be reliable or to apply to every instance. Please seek legal and tax counsel on all such matters.